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## Racial Hardliners Lead Field For Premiership in S. Africa

By David Lamb

JOHANNESBURG, Sept. 22 — Two hard-line conservatives have emerged as the leading candidates to replace Prime Minister John Vorster. Neither would be likely to make a major shift in South African policies on race relations or South-West Africa.

Mr. Vorster announced on Wednesday that he was resigning the premiership after 12 years because of failing health. In a final defiant gesture, he also announced that his government was sidestepping the UN peace plan for South-West Africa (Namibia) and proceeding unilaterally to hold elections in the disputed territory.

That decision put South Africa perilously close to a showdown with the United States and the four other Western countries that devised the settlement plan. The decision guarantees that Mr. Vorster's successor will immediately inherit a national crisis.

The new prime minister will be chosen on Thursday when the National Party caucus of 175 assemblymen and senators meets in Cape Town. Mr. Vorster is expected to be elected president of the republic at the same time, a position that in the past has been largely that of a figurehead.

With the withdrawal Wednesday of S. P. (Fanie) Botha, the minister of labor, as a candidate, most observers believe that the National Party leadership will pass to either

Pieter Botha, the minister of defense, or C. P. Mulder, the minister for black affairs.

Defense Minister Botha, 62, is known to be a hawk on military matters and a hardliner on separate development of races (apartheid). He is authoritarian, highly emotional and willing to confront the West over Namibia.

It was he who persuaded the Vorster Cabinet to send troops to SWAPO has warned South Africa it would escalate the Namibia guerrilla war and "liquidate" any black government elected under South African auspices. Page 2.

Angola during that country's civil war in 1975. He leads the hawks on the Namibia issue and has said that Pretoria would not tolerate SWAPO, the liberation movement fighting for control of Namibia, as the government of that territory.

Like Mr. Botha, Mr. Mulder, 52, is an Afrikaner. He is generally considered to be right-wing, but has been forced to soften his position to seek accommodations with other factions of the party. He favors separate development of the races and supports South Africa's attempts to exclude SWAPO from the Namibia settlement.

Mr. Mulder may have been hurt politically by a scandal in the Ministry of Information that he used to head. The scandal involved a secret fund, whose purpose has never

been disclosed, that financed overseas trips for ministry personnel. No charges were brought against him, although he apparently had knowledge of the fund.

An outside candidate is Foreign Minister Roelof Botha, 43, a moderate by South African standards. A former ambassador to the United States and the United Nations, he is probably Mr. Vorster's favorite for the succession.

Roelof Botha also enjoys wide support from the public, but most observers believe that he is too young and too moderate to win the backing of the caucus. Had Mr. Vorster retained the premiership for several more years, Roelof Botha would have been a more likely candidate.

Mr. Vorster's decision to resign had been anticipated in South Africa for several days, but his announcement that South Africa would go it alone in Namibia stunned those who had believed that his Cabinet would accept the U.S. plan.

The Carter administration publicly expressed "surprise and deep disappointment" at the decision. The British government described it as a "major setback to prospects of peace in southern Africa."

The Rand Daily Mail called the decision "distressing." The Star said yesterday: "The Cabinet has taken one of its worst decisions, and all South Africa will pay the price in the years to come."



Pieter Botha  
defense minister.



C.P. Mulder  
black affairs minister.

- Vance visit to Syrian leaders is delayed.
- Letters detail Carter, Sadat, Begin positions.
- Arab hardliners meet with King Hussein.

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## Begin Disputes U.S. View Of a West Bank 'Promise'

By Jim Hoagland

NEW YORK, Sept. 22 (WP) — Upset by the decision of White House officials to challenge his word in public, Israeli Prime Minister Menachem Begin asserted yesterday that he has written proof that he did not give President Carter a promise for a lengthy moratorium on Jewish settlements on the West Bank.

"I didn't agree to that," Mr. Begin said in an interview here. "My reaction was, I will consider it and I will write to" President Carter about a U.S. proposal for a negotiating framework that would give local Palestinians an effective veto over future Israeli settlements.

"If I had accepted it, I would have said so," Mr. Begin said. Israeli notes of the discussion have been checked and support his view, he said. Asked about the display to reporters in Atlantic City Wednesday of Mr. Carter's handwritten notation of the disputed clause, Mr. Begin replied, "Let me respectfully say that they shouldn't have done that. It is not proper to show to the media texts that have not been approved."

### Dispute Blocks Letter

With the White House insisting yesterday that agreement on the issue had been reached at the Camp David summit, the dispute continued to block the scheduled exchange of a letter that is supposed to spell out an agreement on future Israeli settlements in the West Bank and Gaza Strip territories.

But Mr. Begin disclosed that despite the dispute, Israel, Egypt and the United States yesterday exchanged two other letters of understanding growing out of the 13-day Camp David summit on the Middle East. Moreover, he was insistently optimistic that he and Egyptian President Anwar Sadat will shortly sign a binding peace treaty, no matter what transpires on the complex arrangements drawn up at Camp David for the West Bank and Gaza.

"Everything is agreed upon, with contents and dates. As far as Egypt and Israel are concerned, we almost have a peace treaty. Except for the one issue [of Israeli settlements in the Sinai] we could sign the treaty today," Mr. Begin said.

But he predicted an extremely close vote by the Israeli Knesset on Mr. Sadat's demand that the Sinai settlements be dismantled as a prerequisite for the signing of the peace treaty. It "might be decided by one vote, or two votes, or three votes," he said.

Mr. Begin, Mr. Carter and Mr. Sadat concluded the summit Sunday night by signing two agreements. One was a framework for an Egyptian-Israeli peace treaty and the other a framework for negotiations over the "final status" of the Israeli-occupied West Bank and Gaza Strip.

Making other points in an interview conducted by The Washington Post and Newsweek magazine, the Israeli prime minister said: "He will resign if the Knesset votes on Monday against the two framework agreements. But Mr. Begin said he believes "there will be an overwhelming majority" in favor of the two accords.

• If a separate vote he has scheduled for a week later on the Sinai settlements "should go against my conviction, I will not resign. I will abide by any decision of the majority" on this question, which Mr. Begin indicated was of less fundamental importance than the two framework accords. He

again declined to say how he would vote on the issue.

• While he is not deliberately leaving the difficult question of the 1983 decision on the final status of the West Bank and the Gaza Strip for a successor to handle, he is likely to have left office by then. "I want to leave politics completely by the time I am 70," he said, adding, "I am now 65."

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BATTLE 'CASUALTIES' — American soldiers participating in a NATO training exercise in northern West Germany relax next to an armored personnel carrier near Walsrode. The vehicle contains a number of soldiers "killed" during a mock battle. See story on page 2.

Says Some Circles Seek New Cold War

## Brezhnev Charges Provocations in U.S.

MOSCOW, Sept. 22 (AP) — Soviet President Leonid Brezhnev charged today that some influential circles in the United States are deliberately provoking the Soviet Union to aggravate U.S.-Soviet relations and start a new edition of the Cold War.

"This, comrades, is a serious matter," Mr. Brezhnev said in a speech celebrating the awarding of the Order of Lenin to the Soviet Azerbaijanian city of Baku.

"We will resolutely resist sallies against the rights and interests of the Soviet state and we will not give in to provocations," he added.

Blaming the stubborn refusal of Israel to recognize the legitimate rights and interests of the Arab peoples, Mr. Brezhnev said the Camp David agreement covered up Egypt's surrender on one side and consolidated the fruits of Israel's aggression on the other.

"Any attempts to ignore the cardinal preconditions of a true settlement of the Middle East problem, to exclude or sidestep some lawful participants in the settlement, to sacrifice their interests, to dictate terms to them can produce nothing but the illusion of a settlement," he said.

On U.S.-Soviet relations, Mr. Brezhnev blamed the failure to draft a new strategic arms limitation agreement on NATO's insistence on building up its military arsenal and on Washington's clamoring about a Soviet threat.

But he noted that the SALT talks are closer than ever to being completed. U.S. chief arms negotiator Paul Warnke recently visited here to restart the negotiations.

"It must be said that the distance between the positions of the sides on this question, as stated at the talks, is not all that great and is quite surmountable given goodwill and state wisdom," Mr. Brezhnev said.

"But it seems that the solution of this question does not suit those in the United States who want not a lasting peace and mutually advancing

tageous cooperation but a new edition of the Cold War."

Mr. Brezhnev also denounced the propaganda campaign started around the world against the recent wave of Soviet trials of dissidents, who he said included paid agents of Western special services.

"This is a direct attempt to interfere in our internal affairs and, consequently, a most flagrant violation of the letter and the spirit of the final act adopted in Helsinki," Mr. Brezhnev said, referring to the 1975 Helsinki accords on East-West cooperation which contain provisions on human rights.

He accused the United States of interfering in the internal affairs of other socialist countries, although he did not mention these nations by name.

Moscow Wavers on Crop

MOSCOW, Sept. 21 (AP-DJ) — Soviet President Leonid Brezhnev said that the Soviet Union will have "a good harvest" this year, confirming Western predictions of what may be a record crop. But he noted that "many more cares and problems" are ahead. Western diplomatic sources have said that bad weather in the final stages of the harvesting has hampered the effort and may reduce the output slightly.

Mr. Brezhnev warned that the situation in the Middle East remains "complex and potentially dangerous" and that the "separate deal" made at the Camp David, Md., summit produced "nothing but the illusion of a settlement."

He added, "It can only make the situation in the Middle East even more explosive."

Mr. Brezhnev spoke for 50 minutes, and was interrupted often by applause from the several thousand spectators in a meeting hall in the southern Caspian Sea republic.

Israel Blamed

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## Rhodesia Continues Raids in Mozambique on Rebels

SALISBURY, Rhodesia, Sept. 22 (AP) — Rhodesian security forces today continued air and ground strikes against suspected black guerrilla bases inside neighboring Mozambique, with still no official indication of when the military will pull out.

As the forces went into their third day, a spokesman for combined operations headquarters here would only repeat last night's statement: "The operations launched against ZANLA Communist terrorist bases within Mozambique are continuing."

Military sources said that at least five bases had been hit, some of them understood to be up to 200 kilometers inside Mozambique, and that the strikes would continue until security forces were satisfied that their aims had been achieved.

From Umtali, the garrison town nestled in Rhodesia's eastern highlands only a few kilometers from the border, Rhodesian Air Force bombers and fighters could be seen flying into Mozambique, indicating strong air support for the ground forces.

The first two days of the opera-

tions were believed to have been supervised from the Umtali military headquarters by the commander of combined operations, Lt. Gen. Peter Walls. But he was understood to have flown back to Salisbury today.

The original announcement by the military command on Wednesday said that the Mozambique operation had been mounted "in self-defense," and was not aimed at Mozambican groups or civilians.

The raids apparently are aimed at bases of the Zimbabwe African National Liberation Army forces

that are loyal to Robert Mugabe, co-leader of the Patriotic Front.

Military sources said that the main purpose of the raids was to disrupt the guerrillas' lines of communication and to seize or destroy as much equipment as possible to stem the infiltration of guerrillas across the eastern border into Rhodesia.

Callaghan Meets Kaunda

LONDON, Sept. 22 (UPI) — Prime Minister James Callaghan flew to Nigeria today on a hastily arranged mission to try to heal an angry breach with Zambian President Kenneth Kaunda and to head off possible reprisals against British economic interests in Africa.

Accompanied by Foreign Secretary David Owen, Mr. Callaghan flew to Kano in northern Nigeria a city about half way between London and Lusaka.

Mr. Callaghan's office said that he and Mr. Kaunda were expected to confer tomorrow and that the prime minister probably would return early Sunday.

Mr. Kaunda was said to be angry about confirmation in an official report to the British government this week that British oil companies, with the knowledge of some former government ministers, shipped oil illegally to Rhodesia in defiance of UN sanctions.

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## 2d Brigades Hideout Is Found in Italy

MILAN, Sept. 22 (UPI) — Italian authorities announced today that they had discovered a second Milan hideout used by Red Brigades leader Corrado Alunni before his arrest last week.

Magistrates Armando Spataro and Luigi de Liguori said that documents found in the hideout gave them positive identification of another Red Brigades member possibly involved in the Moro killing.

They said that the documents also showed that Alunni, 30, had links with other terror organizations that have been plaguing Italy in the last several years.

Alunni, a former police trainee and electronics expert, is suspected of taking part in a dozen killings, including those of Mr. Moro and his five police bodyguards, three policemen, two judicial officials and an editor of the Turin newspaper *Stampa*.

Mr. Spataro and Mr. de Liguori said that they tracked down the newly discovered Red Brigades hideout from a key found in the pocket of Alunni's blue jeans at the time of his arrest on Sept. 13.

They said that the apartment had been rented several months earlier

by Marina Zoni, Alunni's 31-year-old girl friend, who was arrested when she tried to enter his second apartment hours after his arrest.

Mrs. Zoni, a teacher from Varese near Milan, has been charged with possession of weapons. Officials said that she would soon be charged with subversive activities and belonging to an illegal armed band.

Officials said that the newly discovered apartment had been used by Alunni and Mrs. Zoni before he moved to the apartment where he was arrested.

Mr. Spataro and Mr. de Liguori said that a sizable amount of documents were found in the hideout. They would not go into details.

"All we will say is that the documents show that Alunni is a most important person in the urban guerrilla struggle," Mr. Spataro said.

Mr. Spataro said that he was using the words "urban guerrilla struggle" because "terrorism is not a thing that is compartmentalized," and "there are close links among the various organizations."

When police arrested Alunni, they said that documents found in his apartment linked him to several

urban guerrilla groups in addition to the Red Brigades.

In addition to Alunni and Mrs. Zoni, police have arrested Maria Alberani, a 29-year-old activist from Bologna. Police sources say that they also are seeking Maria Teresa Zoni, Mrs. Zoni's 23-year-old sister, and two other women from the Bologna area.

They said that Maria Teresa Zoni matches descriptions of a woman seen taking part in Mr. Moro's kidnapping on March 16. Mr. Moro, president of the ruling Christian Democratic party and five times premier, was found dead on a Rome street on May 9.

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## Foreign Holding of U.S. Farms Termed Exaggerated

Panelists Say Information Hidden, Sketchy

By Wayne King

ATLANTA, Sept. 22 (NYT) — Panelists representing government, agricultural, academic and real estate interests generally agreed yesterday that the furor over foreign interests buying U.S. farmland "may be a media event."

At the same time, he and other participants, including Stanley Sargol, assistant director of the General Accounting Office, which is gathering data for Congress on foreign ownership of farmland, conceded that no reliable method exists for determining the extent of foreign ownership. Congress is considering legislation to require disclosure of such holdings to the Department of Agriculture.

John Gornall Jr., a lawyer whose Atlanta firm has handled a number of foreign land acquisitions, said, "I'll guarantee you this, you'll never find out that any of my clients own United States land unless they want you to know it. A lot of foreign transactions are structured in such a way that you cannot find it."

He noted that in some South American countries, for example,

age and management concern with a substantial foreign clientele, maintained that the concern over foreign investment in U.S. farmland "may be a media event."

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He noted that in some South American countries, for example,

taking capital from the country is a felony, so acquisitions here are hidden.

The panelists appeared at a seminar sponsored by the Georgia World Congress Institute, a state-funded informational group. Sen. Herman Talmadge, D-Ga., has been a leading advocate of mandatory disclosure of foreign holdings of farmland and is a chief sponsor of a Senate-approved bill to implement disclosure.

Mr. Sargol of the GAO, which has completed a preliminary spot survey to "suggest" the extent of foreign ownership, conceded that foreign ownership could not always be determined.

In a study completed in June, the GAO sampled 11 counties in Georgia, and three each in California, Kansas and Missouri. "The bottom line," he said, "was that 44,000 acres out of 16 million in the counties had been bought by nonresident aliens," about one-tenth of 1 percent.

He reported that in Johnson County, Ga., more than 6 per-

cent of the farmland was foreign-owned.

A telephone check by The New York Times in Johnson County revealed that the land referred to, according to the Clerk of Courts Daley Powell, had been bought by four corporations with the names Southeastern Investors Land and Cattle Co., Norfolk Farms, Cypress Farms and Southeastern Cotton.

The governor's office in Atlanta said that the owners of the Georgia corporations were "European banks," but he suggested that the actual purchase money was likely in trust — "and that could be anybody, maybe Arabs, anybody."

The General Accounting Office found that while nine states had general prohibitions or major restrictions on foreign ownership of land — Connecticut, Indiana, Kentucky, Minnesota, Mississippi, Missouri, Nebraska, New Hampshire and Oklahoma — "in the aggregate, state laws do not significantly inhibit foreign ownership of land."

Also, few states had data on foreign ownership. Iowa reported only three-hundredths of 1 percent of its farmland was owned by foreign or substantially foreign interests and Nebraska, nine-hundredths of 1 percent.

The rate of foreign buying of U.S. farmland, however, might have been suggested by a report from Vermont, based on a limited survey, which found that nonresident aliens in that state bought 951 acres, or about 20 percent, of the total 4,746 acres of farmland that were sold in four of the state's 14 counties during 1976 and last year. Mr. Sargol conceded that his office had not determined what percentage of recent land purchases were made by foreign interests, only the amount now held in comparison with the total amount in existence.

Regardless of the extent of foreign ownership, panelists made it clear that farmers and politicians in major agricultural areas were concerned, and that the specter of foreign control of part of U.S. agricultural resources might be politically unacceptable, regardless of the reality.

Several residents said they thought that the Sandinistas, with their ranks swelled by high school students to between 1,500 and 2,000, had abandoned the city two nights ago, leaving behind only a few snipers to cover their retreat.

There had been no battles in the town since late Thursday night, residents said.

Witnesses came forward with tales of atrocities that they said had been perpetrated by the national guard.

Olivia Guerra, a 19-year-old Red Cross volunteer, said she had been carrying a wounded 24-year-old local merchant to a Red Cross post along with other volunteers when a three-man national guard patrol in a jeep told her to put the stretcher down and leave it behind. As she

Many of the bodies were still lying in the streets and mobile Red Cross brigades, faces covered with banderches, were burning corpses. Guardsmen at a checkpoint wore handkerchiefs against the stench of three partially burned bodies lying nearby.

The market and several other areas were still smoking. Not a single house was left intact. An old woman sought out reporters to say, "Tell the world this is an example of what Somoza has done to his people. We can't live in this country any more. I'm getting out."

While some civilians continued to stream out of the town carrying makeshift white flags and bundles of belongings, others looted. About 2,000 people broke down the remains of plate glass windows at the Two Brothers department store, making off with radios and huge boxes of toilet paper. Two young girls carried out stacks of blue jeans.

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## Brazil Congress Restricts Power Of Presidency

BRASILIA, Sept. 22 (AP) — Congress has repealed a 10-year-old law that gave the president of Brazil nearly absolute power. The change takes effect on Jan. 1.

The constitutional amendment was proposed by President Ernesto Geisel and passed yesterday. The opposition voted against, arguing that the amendment does not go far enough.

It eliminates death and banishment as penalties for domestic political crimes. It repeals Institutional Act No. 5, which gave the president power to close Congress, dismiss elected officials, revoke the political rights of citizens and confiscate private property.

In the future the president will be able to declare a state of siege, with temporary suspension of certain individual rights, but must obtain congressional approval within five days and cannot shut down Congress. A state of emergency, in which some rights can be taken away temporarily, also will be available.

## U.S. Raises Interest Rates

WASHINGTON, Sept. 22 (IHT) — The Federal Reserve today raised key interest rates, in part to bolster the dollar.

The dollar, meanwhile, rose against major currencies but dealers attributed today's gains to profit-taking following yesterday's steep slide and are waiting until next week to see the effect of the Fed's action.

Stories: Page 9.

In Study of Lymph Disease

Experts Say Cancer Virus Nearly Proven

By Harold C. Schmeck Jr.

NEW YORK, Sept. 22 (NYT) — An international medical research team has all but proven that a virus known to be widespread throughout the world is a cause of at least one type of human cancer.

For many years scientists have been trying to prove that viruses are among the causes of human cancer. Proof has always been elusive, but would be important for a better understanding of the cancer process and for practical public health reasons, such as the possibility of developing a protective vaccine against a proven cancer virus.

The findings, from a field study begun in Uganda in 1971, "strongly support a causal relationship" between the virus and the cancer, the research group reported in a recent issue of *Nature*, the British scientific weekly.

The virus is called the Epstein-Barr virus after the two British scientists who discovered it more than a decade ago. The cancer is called Burkitt's lymphoma. It is a cancer of the body's lymphatic system that constitutes an important health problem among children in some equatorial areas of Africa.

The Front-Runner

"The Epstein-Barr virus is the front-runner in the race to be elected the first human oncogenic (cancer-causing) virus," said a commentary in another British scientific journal, *Lancet*. "Some say it has already breached the tape, but the evidence has so far been laboratory rather than epidemiologically oriented."

The new evidence is based on epidemiology. In the Uganda study, blood samples were taken from 42,000 young children living in an area where Burkitt's lymphoma is relatively common in an effort to discover whether those who later developed the cancer had a different experience with the virus than those who remained free of the disease.

Since virtually everyone in that area becomes infected with the virus during childhood, it was not enough to show that the child who later developed the cancer had been infected. There had to be something unusual about the person's virus exposure.

The research group, led by Dr. Guy de The of the International Agency for Research on Cancer, expected to test three hypotheses. The first was that there was no relationship between the cancer and the virus infection. The second was that the cancer developed shortly after infection with the virus, and the third was that the cancer developed only after long and heavy exposure to the virus.

Strong Support

The findings from the study strongly support the third hypothesis and also reinforce the long-standing belief among scientists that there is another factor in addition to the severe virus infection that must be present if the cancer is to develop.

Many scientists believe malaria is an essential factor for this type of cancer. A public health project under way in Tanzania is expected to give strong evidence on this. Public health workers there have been giving drugs to children to prevent malaria and malaria infection among them has dropped from 40 percent to 5 percent.

If the strongly suspected link between Burkitt's lymphoma, Epstein-Barr virus and malaria is valid, a drop in the frequency of this kind of cancer should become evident in the next several years. In a commentary in *Nature* accompanying the report from Dr. de The's group, Dr. M.A. Epstein said the new study shows a stronger relationship between the virus and the cancer than the evidence that has established heavy cigarette smoking as a cause of lung cancer.

Principal Pioneer

The British scientist was the principal pioneer in efforts to link Burkitt's lymphoma with the virus that bears his name. In the commentary, he noted that previous laboratory studies have proved that the virus is found in the patient's cancer tissue and that, in the test tube, the virus is able to transform human white blood cells into a cancer-like state.

"Direct proof that Epstein-Barr virus causes Burkitt's lymphoma can only be obtained by showing that vaccination against the virus decreases tumor incidence," said Dr. Epstein. He said the Uganda data lends support to a proposal to launch such a project and to attempts to diminish another type of cancer called nasopharyngeal carcinoma which is also suspected of having the virus as one of its major causative factors. Nasopharyngeal carcinoma is a major form of cancer among some Far Eastern groups.

In addition to the International Agency for Research on Cancer, a World Health Organization group, the organizations that contributed to the study in Uganda were the East African Virus Research Institute, Entebbe; the University of Erlangen in West Germany; the U.S. Center for Disease Control in Atlanta; and Children's Hospital, Philadelphia.

Main Alitalia Flights Canceled by Strike

ROME, Sept. 22 (AP) — All domestic and international flights of the Italian airline Alitalia from the country's three major airports were canceled today because of a 24-hour strike by flight assistants.

The workers' union called the strike in Rome, Milan and Naples airports after negotiations for the renewal of the labor contract failed over disagreement over salaries and fringe benefits.

Libyan Plot Seen in Imam's Disappearance

Leader Vanishes; Moslem Sect Angered

By Thomas W. Lippman

BEIRUT (WP) — The disappearance of one of Lebanon's most prominent religious leaders has provoked grief and outrage among his followers and ignited an international dispute about what happened to him.

Imam Musa Sadr, 50, spiritual leader of nearly a million Shiite Moslems in Lebanon, was last seen in Tripoli, Libya, Aug. 31.

Libyan officials said he took a flight to Rome that night. It has been confirmed that his name was on the passenger list of an Alitalia flight on that date, but authorities in Italy said there is no proof that the imam actually left Libya. There is no record that any traveler bearing that name entered Italy, but if it was the imam he could have used Rome airport as a transit point to some other destination.

The Shiites believe he never left Libya. Prominent members of the Shiite community here and in Iran have charged that he was arrested on orders from Col. Moammar Qadhafi, the Libyan leader. They said Col. Qadhafi viewed the imam as a threat to his own aspirations to a position of religious leadership among the world's Moslems.

Added to Tensions

The disappearance of the imam has predictably added to the tensions afflicting Lebanon. The High-Resolution Council, which issued a general strike last Friday to demand the return of the imam, the strike shut Moslem West Beirut and several other towns, and the council said that would be only the "first step."

Thousands of posters showing the imam's bearded face have been plastered on walls and automobiles around the country, asking where he is. At the Shiite council headquarters, on the coast south of Beirut, groups of men, some of them armed, have been meeting to consider their next move.

An investigating team sent to Tripoli and Rome by the Lebanese government returned Sunday night with no new information.

Omar Missekhe, the Cabinet secretary who headed the inquiry, said he had been assured by the second-ranking leader in Libya, Maj. Abdel Salem Jalloud, that Imam Sadr left Libya on the flight to Rome, but there is no trace of him in Italy.

Different Branches

The Shiite branch of Islam, which differs from Sunni Islam in its beliefs about the succession to the prophet Mohammed, is centered in Iran.

That has prompted speculative reports in some Arab newspapers that Imam Sadr, who was born and educated in Iran, and has a reputation as an opponent of Shah Mohammed Reza Pahlavi, had traveled secretly to Iran to join Shiite unrest against the imperial rule.

That theory is rejected absolutely by the Shiite leadership here.

The Ayatollah Shariat Madri, one of the most prominent Shiite figures in Iran and a leading opponent of the shah, sent a telegram to Col. Qadhafi saying: "The whole world knows the imam was invited to your country and that he went there. Since then, there has been no news of him."

He sent copies of his telegrams to Presidents Houari Boumedienne of Algeria, Elias Sarkis of Lebanon and Hafez al-Assad of Syria, saying the responsibility for Imam Sadr's disappearance lies with the Libyans.

Christian newspapers here have suggested that Col. Qadhafi arrested the imam because of a dispute over what use had been made of money the Libyan leader had given him to finance political activity among the Shiites of southern Lebanon.

That theory is indirectly supported by Shiite officials who confirm that on an earlier trip to Libya, the imam had quarreled with Col. Qadhafi over two issues — the role of Shiites, traditionally the most backward and least influential of Lebanon's religious groups, in the country's Moslem-Christian struggle, and Col. Qadhafi's religious views.

It is known that Imam Sadr was invited to attend ceremonies marking the anniversary of the Libyan revolution on Sept. 1. He accepted, and traveled to Tripoli on Aug. 25 with two companions, Sheikh Mohammed Yacoub and Abbas Badreddin, a journalist. All three vanished on Aug. 31.

Shiites who believe the imam is still in Libya point out that if he had gone to Rome on Aug. 31, as the Libyans said, that would mean he left before the ceremonies that were the reason for his trip.

But if Col. Qadhafi really wanted to get rid of Imam Sadr, as some Shiites believe, he could have done so under much less embarrassing circumstances.

Creation of FBI Charter Snared in Bureaucracy

By Nicholas M. Horrock

WASHINGTON, Sept. 22 (NYT) — In the hour after FBI spying on such domestic dissidents as the U.S. Communist Party, the Socialist Workers Party and the Black Panthers, a great irony has largely been obscured: The bureau never had clear legal authority to open or maintain investigations of such organizations.

For more than 40 years it expended millions of dollars and thousands of man-hours in domestic snooping on the fragile authority of instructions from attorneys general and broad requests from various presidents.

By 1976 this absence of clear authority became a key impetus for the writing of a full legal charter for the FBI that would not only set down its responsibilities and its jurisdiction but also restrain use of illegal or questionable investigative techniques.

Now, three years after the opening of Senate and House intelligence investigations, and two years after the need for a charter was first recommended, the plan seems mired in the swamp of Washington bureaucracy.

The Senate Committee on Intelligence issued charter proposals in February dealing with the gathering of foreign intelligence and care-

fully omitting any attempt to guide FBI's domestic intelligence operations.

At almost the same time, Sen. Edward Kennedy, D-Mass., chairman of the Administrative Practices subcommittee of the Senate Judiciary Committee, was coordinating the final preparation of a bill on foreign intelligence electronic surveillance. He had become convinced, during the two years he worked on this measure, that other aspects of the FBI's investigative powers needed to be clarified and regulated.

At a hearing in early summer, Attorney General Griffin Bell told Sen. Kennedy that the Carter administration would submit its proposals for an FBI charter by Sept. 1.

No proposal has yet been made. A Justice Department spokesman said in a recent interview that there is no intentional foot-dragging, but that the charter assignment required more time and preparation. The spokesman said the Justice officials plan to attend a judiciary subcommittee hearing to present some of their key ideas.

But some congressional aides and civil libertarians are concerned that while the charter draft is delayed there is an erosion of commitment on Capitol Hill and among the public to setting down clear rules for FBI agents.

One clear area of concern is a recent bill that would release the FBI and other federal lawmen from liability for abusive investigative techniques. If it were to pass and no charter were to be run through Congress, the agency's desire to have its role clarified would be sharply diminished.

Part of the problem arises over whether the charter proposal would be all-inclusive — that is, describing the FBI's jurisdiction in its criminal investigations, record-keeping functions and laboratory work — or whether Congress should take on the bureau's duties one by one.

One sensitive question is the FBI's role in domestic intelligence. The American Civil Liberties Union has recommended that the bureau be held to a "criminal standard" so it could not investigate dissenting groups only when it could establish that there was evidence they were involved in criminal activity.

Without clear legal instructions, many law-enforcement experts suggest, the FBI is in danger of again engaging in techniques that will later be criticized or found to be illegal.



IMPERIAL RICE CROP — Japan's Emperor Hirohito harvests rice from a paddy in the Imperial Palace compound. The rice, which he planted May 29, will be offered at the great Shinto shrine at Ise as the year's first rice crop.

NATO Soldiers Practice In War Without Bullets

SCHOTTEN, West Germany, Sept. 22 (UPI) — Sixty thousand soldiers from five nations fight a war without bullets in the hill country 50 kilometers (30 miles) north-east of Frankfurt.

Bursts of smoke and gas that go "boom" simulate gunfire. A U.S. soldier of the "Blues" on a pine-covered peak fires a burst from his 50-caliber machine gun at an "Orange" scout vehicle.

To make sure that friends, enemies and umpires understand he is "firing," his weapon, the soldier yells, "POW, POW, KAPOW."

A British Special Forces soldier in blackface squats at a busy village intersection to squeeze the trigger of his anti-tank weapon at an "Orange" armored vehicle cresting a hill.

"That's a kill, mate," a fellow soldier declares.

The umpires make the actual decision, ordering the wounded to wear bandages and to strap-on plastic gore that imitates injuries. Sometimes they roll dice to decide the winner of a major engagement.

West German children find the whole affair highly amusing, giggling at soldier antics, bicycling in the wake of huge M-60 tanks.

The maneuvers are part of "Certain Shield," one of 30 exercises making up this year's NATO fall maneuvers in Europe. About 13,000 U.S. soldiers, including regulars, National Guard forces and reservists, and 48 F-4 Phantom fighter-bombers were flown to Europe to take part.

These are the most massive maneuvers since the time of Kaiser Wilhelm II, said Gen. Franz Josef Schultze, the West German who is NATO's supreme commander of allied forces in Central Europe.

Of course, since the last time Kaiser Wilhelm watched maneuvers, there have been real wars in Europe, and several of the armies that now work together under a common command were fighting each other.

Soldiers fight pretend wars under restrictions unknown in real war.

"In a real war, we would not have the administrative constraints we have here today," said Lt. Joseph Hardesty, of Frankfurt, Ind. By which he meant, "We can't go through cultivated fields or plough through German property."

But within those restrictions, the commanders make the pretend war as real as possible.

"We let them do their thing out there," said Capt. Bob Saxby, of Pollock Pines, Calif., who describes himself as "the voice of umpire control."

"There are no false restraints. The only time we might stop them is if the forces get all scrambled up and somebody might get hurt."

Excavations, Research in Tanzania Show African Iron-Age Smelters Were Ahead of Europeans

By Boyce Rensberger

NEW YORK (NYT) — Prehistoric African civilizations, thriving between 1,500 and 2,000 years ago in what is now Tanzania, practiced a method of smelting iron and making carbon steel that was far more durable than plain iron.

The discovery, reported in the Sept. 22 issue of the *Journal of Science*, was made by two researchers from Brown University in Providence, R.I. — Peter Schmidt, an anthropologist and an engineer have found.

It has long been known that Africans were among the earliest of peoples to develop a technology for smelting iron ore. The new discovery establishes that the African process was more sophisticated than that practiced elsewhere.

Old Men Remember

The discovery grew out of Dr. Schmidt's nine years of research on the Haya tribe of Tanzania. For three of those years, he lived among the Haya, peasant agriculturalists on the western shore of Lake Victoria who raise bananas, beans, coffee, tea and cattail.

Inquiring about the orally transmitted traditions of the Haya, the anthropologist was told about a "shrine tree" that marked the site

of an industry of the early Iron Age. The Haya, he learned, had practiced steel making for thousands of years, but had ceased early in this century when an influx of cheap imported steel tools displaced the ancient methods.

Dr. Schmidt found some old men who had been steel makers in their youth 50 to 60 years earlier and who remembered how to make and operate the furnaces. They were eager to relive the experience, he found.

The furnace that the men built and operated turned out to be just like those found in archaeological excavations of Haya sites dating back between 1,500 and 2,000 years.

The furnace is a pit in the ground lined with mud from termite mounds. Into the pit goes a large heap of charred swamp reeds. A shaft of slag and more mud is built, about three feet across and five feet high and tapering in toward the top. Charcoal is heaped in the shaft, with a mixture of chunks of iron ore and more charcoal on top.

Superior Blast Pipes

What makes the Haya smelting furnace so superior is that instead of simply blowing cold outside air in through holes at the bottom to fan the fire, the Africans make long ceramic "blast pipes" that reach

S. Africa Is Warned 'Protracted War' Pledged In Namibia by SWAPO

By David B. Ottaway

LUSAKA, Zambia, Sept. 22 (WP) — Namibia's militant black nationalists today pledged to escalate the guerrilla war in the territory and "liquidate" any black African government elected there under South African auspices.

Reacting to Prime Minister John Vorster's statement on Wednesday that South Africa would go ahead with elections this November, the vice president of the South-West African People's Organization, Mithusanku Muvongo, said that SWAPO would "never" participate in them.

"Instead, we will intensify the armed struggle and liquidate whichever puppet regime Pretoria is going to install in Namibia," Mr. Muvongo said.

At the same time, he said, SWAPO would call upon friends — "especially the socialist countries" — to provide it with "full-out military assistance" so that it could "effectively wage the war to its logical conclusion."

Soviet, Cuban Roles

The Namibian nationalist group already has several thousand guerrillas being trained and armed by the Soviet Union and Cuba at bases in Angola.

The two Communist powers are expected to increase their aid to SWAPO, possibly including the defense of its Angolan bases. This would greatly increase the risk of a confrontation between them and South African forces, which have already raided a number of times into Angola.

Mr. Muvongo said that he was speaking on behalf of SWAPO President Sam Nujoma. He read a prepared statement indicating that what he said was official policy. He spoke at a press conference at the Namibia Institute here, accompanied by a dozen members of the SWAPO central committee and with pictures of Fidel Castro, Samora Machel of Mozambique and Agostinho Neto of Angola on the wall behind him.

While pledging a "protracted war of national liberation" in Namibia, Mr. Muvongo said that SWAPO was well aware of the regional and international implications of such a confrontation with South Africa. He called on all friendly countries to give "concrete and effective support" to Angola and Zambia to help defend them against South African attacks as the war escalates.

Doors Closed

He asked the United Nations and the Organization of African Unity not to recognize any African government that comes to power as a result of the South African-sponsored elections in Namibia scheduled for Nov. 23.

Mr. Muvongo said that South Africa had now closed all doors to a peaceful settlement of the Namibian dispute, and had "chosen the warpath" against SWAPO.

South Africa began negotiations last year with five Western powers — the United States, France, Britain, West Germany and Canada — on a plan for elections that would be supervised and therefore recognized by the United Nations. Pretoria finally agreed to the Western plan in April, but has now backed out.

Mr. Muvongo accused the South Africans of following a "double strategy" all along. He said they had succeeded in buying time "to completely militarize the country by building additional bases and also by bringing more troops into Namibia."

Asked what the reaction of the Western powers at the United Nations had been, the SWAPO official, who has just returned from New York, said: "They didn't know what to say. There is total confusion in the Western camp. . . . The best thing they can do is apologize to the Namibian people for wasting their time."

He said that SWAPO would consider resuming talks with the Western governments only if it were "very convinced" that there was something new and serious to discuss regarding the new deadlock over Namibia.

"For us," he went on, UN supervision and control "meant the capacity to neutralize, demobilize, control and supervise the withdrawal of the South African trigger-happy troops, and to also monitor the activities of the police force in order to create conditions conducive to fair elections."

He added: "The obvious and simple reason why the South African government has backed out of the plan is that the South African ruling group is not ready to face the inevitability of a SWAPO victory at the ballot box."

Guardsmen Take Esteli

(Continued from Page 1)

walked away, she said, guardsmen execute the wounded men. Much of Esteli was in flames and many homes had their roofs blown off by rocket, artillery or tank fire. The city has been abandoned by most of its 25,000 residents; 6,000 refugees were confined in a high school on the edge of town, many of them sick with malaria.

Observers said that government control of the six cities attacked by the guerrillas did not mean the end of opposition to the Somalian government. The guerrillas were expected to revert to hit-and-run tactics.

In addition, a nationwide general strike against Gen. Somoray was hitting hard at the country's economy. In a letter to the United Nations and other international organizations, a group of eight prominent citizens of Esteli accused the national guard of arbitrary arrests, house searches, massacres, shooting up Red Cross vehicles and refusing a truce to bury the dead.

Britain to Grant Independence to Caribbean State

LONDON, Sept. 22 (UPI) — Britain has agreed to grant full independence to the small Caribbean Associated State of St. Vincent, the Foreign and Commonwealth Office said today.

The agreement was reached at the end of four days of talks between a British delegation headed by Foreign Office Minister of State Ted Rowlands and a St. Vincent delegation headed by Premier Milton Cato. The Foreign Office said no date for full independence has been set but it is likely to be early next year.

The Foreign Office said a draft independence constitution will be prepared on the basis of the findings of the conference and will be published before being submitted for approval by the St. Vincent House of Assembly.

The Foreign Office said invitations to the conference were sent to all political parties in St. Vincent but that both opposition parties, after first agreeing to take part, pulled out.

Philippine Rebels Kill 3 on Power Crew

MANILA, Sept. 22 (UPI) — Heavily armed guerrillas of the communist New People's Army struck a northern campaign of the government's National Power Corp., killing three persons, the Ministry of Defense said today.

Four others were critically wounded and two were missing after the Wednesday attack at Paal, about 250 miles north of Manila, the ministry said. The report said that about 20 of the Maoist rebels fired simultaneously on the power survey team with rifles, pistols and shotguns.

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## South Africa's Time of Trial

It is hard to exaggerate the importance of the passage that southern Africa has entered by virtue of John Vorster's resignation as prime minister of South Africa and South Africa's simultaneous rejection of the UN plan, which it had previously accepted, for bringing independence to Namibia. Mr. Vorster's departure removes a leader who, if stubborn and perverse by Western standards, had the stature at home to make serious change at least thinkable; no possible successor can hope to claim the same power.

Meanwhile, Pretoria's rejection of the UN plan on Namibia creates a new prospect of crisis: In place of reasonably orderly, internationally approved change in Namibia, internal violence and international tension hang even more darkly over the whole southern African sky.

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What went wrong with a Namibian plan that seemed so valuable and promising to South Africa just a few months ago? South Africans claim that the United Nations, to favor the externally based guerrilla group known as SWAPO, made unacceptable changes in the April plan: increasing the size of the UN election-supervising force to 7,500, installing a 360-man UN supervisory force over the local police, pushing back the date of elections by a few months. But it is absurd and unforgivable for South Africa to be quibbling over changes, if they are that, of such trivial dimensions, when quibbling means putting at risk immense gains in security and respectability ensured by sticking

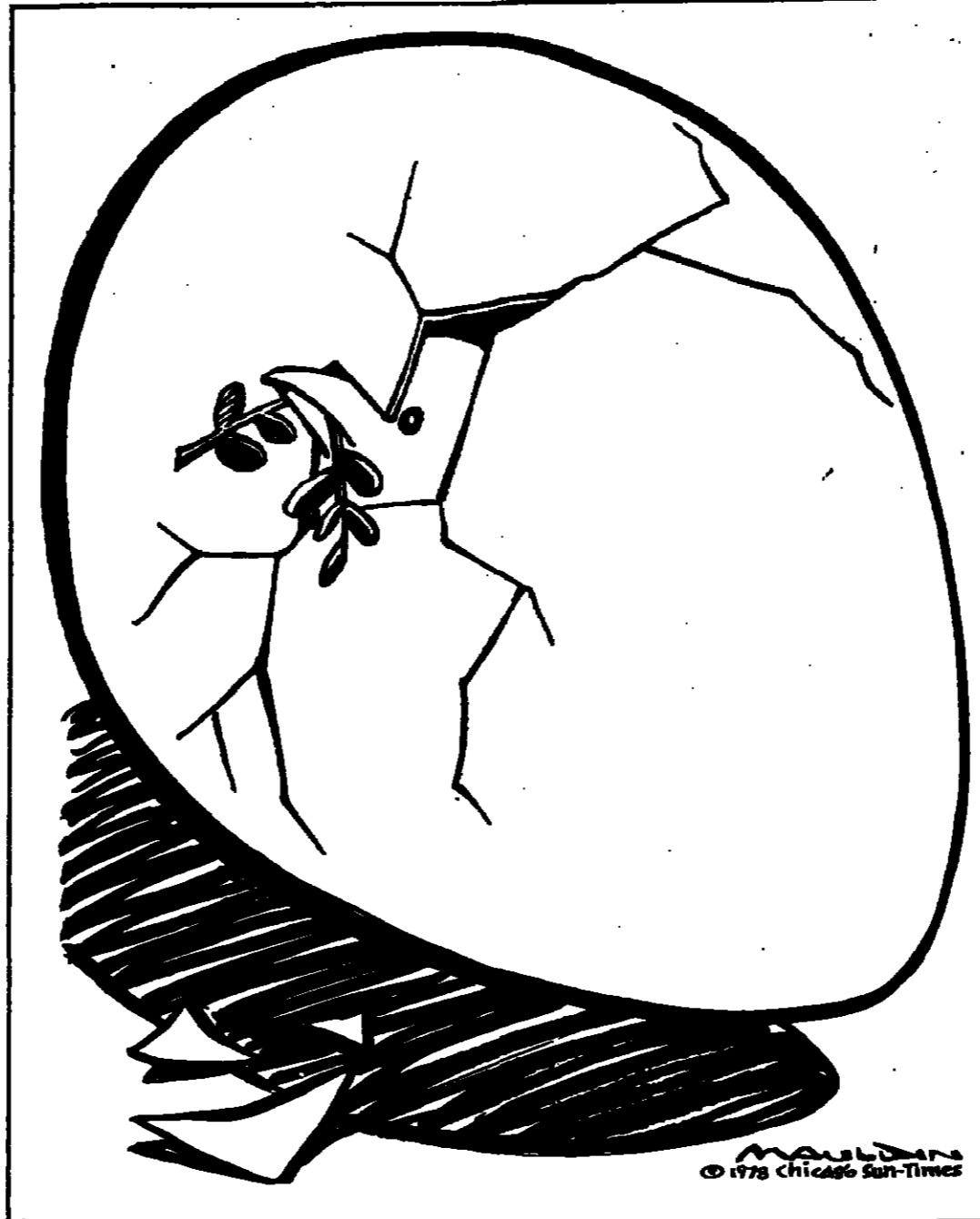
with the UN plan. It is hard not to conclude that Pretoria's action arose not from those details but from pressure among Mr. Vorster's would-be successors to show their toughness at a moment of transition.

\*\*\*  
This sequence is foreseeable if Pretoria runs its own elections: first, SWAPO will resume guerrilla war and invite the Cubans with all that means to the U.S. effort to provide a peaceful non-Communist option for the settlement of African disputes. Then, the United Nations will vote economic sanctions against South Africa, facing the United States with an issue painful and divisive in both its political and diplomatic aspects. Further, perhaps deadly blows will be delivered to attempt to bring about a decent solution in Rhodesia and to substitute reform for revolution in South Africa itself.

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With stakes of that magnitude, there is good reason to proceed with the utmost care. Hoping against hope, the United States is taking the position that it is still possible to draw back from the precipice. It is trying to hold the decision open and give Pretoria room to reconsider. The fight over the succession makes this an extraordinarily difficult time for South Africa to do that. Yet if South Africa can do that, there is scant reason to believe it can do anything effective to spare itself a storm dwarfing every other ordeal it has endured in the past.

THE WASHINGTON POST.



## Chinese Comet in Balkan Sky

By Leopold Unger

Brussels — Tito will not be going to Moscow this year. The trip that he had scheduled to follow that of Hua Kuo-feng to Belgrade has just been canceled, and precisely because of the Hua visit.

Moscow's reaction to Hua's Balkan voyage was — and still is — far too nerve-racking ("close to paranoia," according to a diplomat in Moscow) to allow any hope of a calm conversation between the Yugoslav leader and Soviet President Leonid Brezhnev.

China never has been a "normal" adversary for the Soviet Union and after Hua's meanderings in the Balkans, the tone of the Soviet press has become harsher than ever. Pravda made its objections very clear: "There must be an end to Peking's provocations and expansionism in Europe." It is proof of an agitated state, which finds some justification in the results of the Hua trip that the Russians have already noted.

### Headway

For the first time since the Yalta agreement, a powerful nation frankly hostile to the Soviet Union has succeeded in making some headway in the Balkans, an area which the Kremlin considers of primary strategic value. After decades of desperate efforts to isolate Peking, Moscow is now made to realize that China has gained a beachhead in the political and ideological "soft underbelly" of the Soviet empire.

Furthermore, Moscow's reaction following Hua's trip served only to highlight Yugoslavia's and Romania's independence from the Soviet press, these two countries were "irresponsible, absurd, intolerable, unjust, thoughtless" in receiving Hua. And while Romania's reply was prudent and restrained, Yugoslavia's was direct, energetic and even sarcastic (Tito let it be known that he's been through the same thing with Stalin). However, both countries made it very clear to the Kremlin that they had no intention of changing their policies toward China.

In paying a call Tito, one of the founders of nonalignment, and to Nicolae Ceausescu, an enthusiastic admirer of the Yugoslav leader, Hua has placed China squarely in the Third World. And for the Soviet Union this means that Peking has one main goal: to counter the Third World's pro-Soviet trend as it is promoted by Cuba.

And adding to all that, three weeks after Hua's return from the Balkans, an extraordinary delegation from the European Economic Community will be visiting Peking. The EEC delegation will be headed by Wilhelm Haferkamp, the vice-president and foreign affairs commissioner of the EEC, but its members will be made up of half of high officials of the European organization and half of representatives of the biggest financial and industrial firms of Europe, including the Association of European Banks, the Industrial Union of the EEC, Royal Dutch Shell, Saint-Gobain, Olivetti, Mann and the Bruxelles Lambert Group.

The unusual makeup of this delegation confirms Western Europe's interest in the Chinese market and its intention to play a major role in Hua's plan to modernize China. The Kremlin sees this delegation's trip as a posthumous victory for Chou En-lai, who, from his deathbed in May, 1975, told Sir Christopher Soames — then EEC foreign affairs commissioner — that China and Western Europe must close ranks because of the Soviet menace.

The Kremlin knows also that although the EEC delegation, which is leaving this weekend for Peking, will have an essentially economic role, its mission will unquestionably

have some political fallout. It may well lead to a trip by Hua to Western Europe this year, during which the Chinese president would visit Paris, Rome and Brussels, the capital of the Common Market.

Moscow, thus, believes that Hua's Balkan visit was only the first move by China in its strategy as a world power.

For the Kremlin, the Chinese danger is double. First, it threatens to complicate the relatively calm bilateral relations it has had with Western Europe concerning security. China could, for example, show some interest in negotiations of the Helsinki type, in which other extra-European powers — the United States and Canada — have taken part.

And even more important for the leaders of the Kremlin, Hua's trip has already shown the real extent and the limits of the Brezhnev doctrine of limited sovereignty within the Communist bloc.

The Soviet Union is unlikely to tolerate this situation. But what, reasonably, can it do? There is no question of a resort to arms. But the Kremlin is preparing a series of moves to prevent, or delay, any EEC-Peking rapprochement. And in the Balkans, it can act in three ways.

It can try to apply economic sanctions to Yugoslavia and Romania. This is a tactic already used by Stalin after the Tito schism in 1948 and by Nikita Khrushchev following his break with Mao Tse-tung. However, history has shown this type of action to be largely ineffective.

The Kremlin can also try to foment a pro-Soviet political opposition in Belgrade and Bucharest. And although this type of intrigue pays few dividends in the short run, it may turn out to be a solid investment in the long run, particularly in the expectation of unrest following the death of Tito, who is now 86 years old.

As for Ceausescu, the task will be easier. The Romanian leader has to put up with an economic crisis, labor unrest — particularly in the mining sector — a bureaucracy that was severely shaken by the security chief's recent defection to the West and by a never-ending purge of its cadres. Ceausescu is more vulnerable than ever.

Moscow may also try to foster an outburst of nationalist sentiment within the Balkans. In previous times of tension, Stalin and his successors have already used this form of diversion. It was child's play coaxing the Hungarians of Transylvania to rise in opposition to the central government of Bucharest.

### Letters

#### Wooden Habits

Re: "Unions vs. The Multiple Choice Test" (H.T., Sept. 6) the tester who equated the word "antipathy" with "animosity" has a leader ear for language. "Antipathy" derives from the Greek, *anti + pathos*, signifying that one entertains a feeling against a thing or person or practice. As a noun, "antipathy" denotes the passive holding of such a feeling, as in, "Although he never said so, he disliked Blotz."

"Animosity," however, is a different kind of noun. It is an active noun, as its Latin root, *animosus*, tells us. It signifies the fullness of fury, or the wind blowing violently, or the power of courage, all of which are active qualities. To equate "antipathy" with "animosity" reveals a very wooden habit of mind, as well as a wooden understanding of language. The tester should have included another slot: "None of the Above."

J. M. B. CRAWFORD, London.

and to incite the Bulgarians to question the very existence of the Macedonian nation in Yugoslavia.

And following the Albanian-Chinese split, Moscow may also make use of a new ally — the 1.5 million Albanians living in the Yugoslav province of Kosovo. Has not Tirana just justified the Hua trip to the Balkans as a "provocation against Albania?"

Mr. Brezhnev will be putting the final touches on his reply to the Chinese diplomatic offensive during a visit to Hungary early next month. And according to Eastern European sources, this visit will be followed immediately by a Communist summit conference which will assemble all the Communist Party leaders and all the heads of member-nations of the Warsaw Pact.

A Western diplomat resumed the Hua trip as "the Hua Kuo-feng comet streaking the Balkan sky." It remains to be seen if Soviet lightning striking the tail of the Hua comet does not risk setting off the Balkan powder keg. And in this area of the world, this is not simply a rhetorical misuse of worn clichés.

## Perplexing Shift in Sciences

By Daniel S. Greenberg

WASHINGTON — Leaders of the scientific community have so often employed panic tactics to expand federal spending for research that skepticism now often greets their contentions that all is not well in the house of science.

Nevertheless, though present-day U.S. science remains productive and rich by the standards of any other nation, it would be prudent to listen to what some of the sage, non-alarmist heads of the profession are saying. They are not proclaiming doom. Rather, they are expressing puzzlement and concern over a complex of changes now taking place in the innards of an enterprise on which we all depend for improvements in the treatment of disease, industrial and agricultural productivity, defense, energy sources and environmental purity. Thus we find Frank Press, the competent and calm White House science adviser, saying — in a mood of perplexity — that "Profound things are happening in the sociology of science that we won't understand for 10 years." What does he mean?

### In Harmony

Mr. Press, in harmony with many of his colleagues in the federal science establishment, is not so much concerned about the availability of money for science — though that's a problem, too, given the fact that purchasing power for basic research has been on a plateau for a decade. What they are more concerned about are the long-term consequences of institutional changes that are squeezing a lot of youth, spring and vitality out of the conduct of research. For example:

• Throughout academe, a glut of tenured professors hired in the boom days of the space era — is choking up job opportunities for newly graduated scientists. In 1968, youngsters were plentiful on physics faculties, 40 percent having received their Ph.D.s within the previous seven years. By 1975, the figure was 19 percent.

• Confronted with a new Ph.D. proletariat, academe has responded with the little-noted creation of a caste system that provides scientific labor at lower cost and without the long-term job commitments that have traditionally characterized university employment. Candidates not deemed suitable for faculty appointments are hired for what is referred to as the "doctoral research

## Gamble for Peace In Mideast Tangle

By James Reston

WASHINGTON — The question now about the Camp David "Framework for Peace in the Middle East" is not whether it will work — that comes later — but whether it will be given a chance to work.

In the privacy of the diplomacy at Camp David, Carter, Begin and Sadat were able to work out a number of delicate compromises, but in the publicity after the summit, all the contending forces have been concentrating, not on the agreements but under the insistent questions of reporters and politicians, on the disagreements — and in this process they have been putting all the compromises in jeopardy.

When he came down from Camp David, President Carter went before the Congress of the United States and emphasized what had been accomplished. But Begin and Sadat went before the television cameras in separate interviews with all three national networks and later met with selected newspaper reporters to explain what had happened. At this point, diplomacy and publicity came into conflict.

### Background

Begin called a few reporters together for a breakfast in a basement suite at the Washington Hilton Hotel. The ground rules were that he was talking for "background" — meaning that he was not to be quoted. He was almost recklessly confident and emphasized not what had been achieved at Camp David but what had been avoided — how he had managed to reject what he regarded as the "outrageous" demands of Sadat, and even, at the end of Carter's attempt to question the future of Jerusalem.

On the evening of that same day, President Sadat held an open press conference at the Egyptian Embassy on Massachusetts Avenue. He demanded no restrictions on the reporters who put their tape recorders on his desk, and grilled him on the unanswered questions in the still unpublished compromises at Camp David. What, precisely, did Prime Minister Begin mean by saying the Israeli settlement could go on indefinitely, the reporters asked? What did he think of a United States senator's statement that Begin had won everything and that Sadat had lost everything at Camp David? Did he feel isolated from the rest of the Arab world by his agreements at Camp David?

Also, what would he do if King Hussein of Jordan, and the Saudi Arabians, and the Palestinians didn't go along with the Camp David compromises?

### Argues Case

All this took place in a dim room in the Egyptian Embassy, periodically but suddenly illuminated by his own television cameras — the U.S. networks were not there — so Sadat argued his case for the Cairo audience, but kept saying on the side: "We have a very delicate position now and are very keen to accomplish what we have agreed upon. . . I would advise that we do not try to hammer on this problem

of differences but put it on the table for negotiation."

Sadat, unlike Begin, was receptive to the pugnacious questions of the reporters, but also so exhausted that at times he was not able to find the right words to express his thought.

At one point, for example, he meant to refer to the Senate of the United States but called it "the Knesset" — the parliament of Israel. Even more startling, he referred at one point to Camp David as "Waterloo" — and after an astonished gasp from the reporters, he explained that he was so tired and had had so little sleep that he wasn't getting things straight.

### Pressures

It is not possible to understand all these tangles without recognizing the personal and political pressures of the men who have to negotiate the vital interests of their countries, and make their way through national and world politics.

So Carter is waiting now to see whether the fragile compromise of Camp David will hold, and whether the Israeli Knesset and the leaders of Jordan and Saudi Arabia will go along with the imponderables that brought Carter and Sadat together to save the Camp David conference from collapse.

It is still a mystery how Carter and Sadat avoided a disaster at Camp David, as this colloquy at Sadat's press conference indicates:

Question: Friday, when you called for the helicopter and were ready to leave, President Carter must have said something to you that was rather persuasive.

Sadat: With President Carter, mark this: We shall face the impossible, whatever it is.

Question: But how did he prevail upon you to change your mind? What did he say, precisely?

Sadat: Come, come, come. I can't disclose this between two friends. . . he imposed upon me certain things that I wouldn't agree upon without his imposition. . . Question: But what led to the breakdown from your view? What happened that made you change your mind?

Sadat: I shall never tell you.

Question: Was it that bad?

Sadat: Yes. Because you know I don't lose my patience easily. But Carter proved to have much more patience than me.

### Mysterious

All this is vaguely mysterious, so we are left with the impression that at Camp David Begin insisted on a conclusion on a compromise that was unacceptable to Sadat, but was accepted reluctantly by Sadat on the urgent entreaties of Carter, the nature of which Sadat says he will "never" disclose.

Officials here say there was "no deal," no promises that made Sadat change his mind, only the hope that a vague compromise might keep the peace process going, and that the Knesset and King Hussein in Jordan and the leaders of Saudi Arabia and the other Arab states, even if they don't agree with the Camp David conclusions, will at least give them a chance to work.

And prescriptions for U.S. science. Among them are urgings for academe and industry to enter into collaboration on major scientific projects and for government to help break the tenure-logjam by subsidizing early retirements of academicians.

At the moment, however, the institutional base of science is being reshaped by forces that are only dimly understood. No one, in fact, is certain that these changes will be detrimental to the quality and productivity of science, as distinguished from its lifestyle. The scientific community, after all, remains large and well financed. But it is becoming different, and that's why many of the statesmen of science wish that they had a better understanding of what this will mean for their profession and its ability to fulfill the demand for continued production of knowledge.

The International Herald Tribune welcomes letters from readers. Short letters have a better chance of being published. All letters are subject to condensation for space reasons. Anonymous letters will not be considered for publication. Writers may request that their letters be signed only with initials but preference will be given to those fully signed and bearing the writer's complete address. The Herald Tribune cannot acknowledge letters sent to the editor.

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Released by White House

## Official Letters Clarify Camp David Arguments

WASHINGTON, Sept. 22 (HT) — The White House today released nine letters exchanged by President Carter, Egyptian President Anwar Sadat and Israeli Prime Minister Menachem Begin. But the most controversial one, which concerns Israel's withdrawal from the West Bank of the Jordan, was not among them.

The letters, released five days after the Camp David summit talks, concerned Jerusalem, the rights of the Palestinian people and the forthcoming vote in the Israeli Knesset (parliament) on the removal of Jewish settlers from the Sinai.

Last Sunday, the final day of the 13-day summit meeting, Mr. Sadat wrote a seven-point letter to President Carter setting out Egypt's position on Jerusalem.

He made these points:

• Arab Jerusalem is an integral part of the West Bank. Legal and historical Arab rights in the city must be respected and restored.

• Arab Jerusalem should be under Arab sovereignty.

• The Palestinian inhabitants of Arab Jerusalem are entitled to exercise their legitimate national rights, being part of the Palestinian people in the West Bank.

• Relevant Security Council resolutions must be applied with regard to Jerusalem. All the measures taken by Israel to alter the status of the city are null and void and should be rescinded.

• All peoples must have free access to the city and enjoy the free exercise of worship and the right to visit the holy places without discrimination or restriction.

• The holy places of each faith may be placed under the administration and control of their representatives.

• Essential functions in the city should be undivided and a joint municipal council composed of an equal number of Arab and Israeli members set up to supervise the carrying out of these functions. In this way, the city shall be undivided.

## Arafat, Qadhafi, Hussein Hold Meeting in Jordan

KING HUSSEIN AIR BASE, Jordan, Sept. 22 (UPI) — King Hussein, resisting intense U.S. pressure to join the Camp David peace moves, today received a peacekeeping mission from Palestinian guerrilla leader Yasser Arafat and Libyan ruler Col. Moamer Qadhafi.

King Hussein greeted the two hardliners at the military airbase near the town of Mafrag. The three leaders talked for more than two hours.

They then emerged smiling, shaking hands, and walked a short distance to lunch. They declined comment to a small group of reporters who had rushed from Amman this morning, when news of the meeting leaked.

Mr. Arafat, head of the Palestine Liberation Organization, and Col. Qadhafi had not been on Jordanian soil since King Hussein's army drove out Palestinian guerrillas in a fierce civil war in September, 1970. Mr. Arafat left Jordan for good in early 1971 as the fighting waned. Libya broke ties with Jordan over the war. The relations were re-established about a year ago.

**Drove From Damascus**

The two leaders arrived in Jordan by car from a summit meeting in Damascus, where they plotted strategy to oppose the Camp David accords. Conference sources said that the mission was an urgent bid

Mr. Carter sent a copy of Mr. Sadat's letter to Mr. Begin, and, in a covering letter of his own, told the Israeli leader that the position of the United States on Jerusalem remained as stated by U.S. ambassadors in the UN General Assembly in July, 1967, and July, 1969.

The U.S. position is that the status of Jerusalem, which the Jewish state calls its capital, can be decided only in consultation with the Arabs.

**Settlement Position**

Mr. Sadat wrote a separate letter to Mr. Carter on the same day reaffirming Egypt's position on Jewish settlements in the Sinai.

He said that all Israeli settlers must be withdrawn from the Sinai according to a timetable within the period specified for the implementation of the peace treaty.

If Israel failed to meet that commitment, the "framework for a settlement in Sinai" that was signed at the end of the summit would be invalid.

Mr. Carter also sent a copy of that letter to Mr. Begin.

A third letter from Mr. Sadat to Mr. Carter last Sunday laid down the Egyptian position on the implementation of the comprehensive settlement envisaged in the second document signed at Camp David: "Framework for Peace in the Middle East."

Mr. Carter, in his letter on the Jerusalem question, said that the United States did "not recognize the annexation" of East Jerusalem by the Israelis.

In a letter to Mr. Begin, Mr. Carter acknowledged that he had been informed by the Israeli leader that the expression "Palestinian people" or "Palestinians" is to be understood by Mr. Begin as "Palestinian Arabs."

Letters yet to be published relate to the West Bank settlements and the U.S. agreement to build Israel two military airfields in the Negev to replace three military airfields in the Sinai that the Israelis will turn over to Egyptian civilian control.

to persuade King Hussein not to accept a U.S. invitation to join the peace moves.

King Hussein ended two days of talks with U.S. Secretary of State Cyrus Vance yesterday without agreeing to join the initiative, but not closing the door on such a move.

Jordanian political sources said that King Hussein was biding his time and had told the visiting leaders exactly what he had told Mr. Vance — that Jordan still demanded total Israeli withdrawal from occupied Arab land and self-determination for the Palestinians. The Camp David accords guaranteed neither.

"But the king also made it clear to the PLO and Libyan leaders," a government source said, "that he has no plans to join in open opposition to Camp David — only to wait and make further diplomatic contacts both with Arab and other leaders."

The king told reporters that the talks were "useful" but declined to go into detail on their substance.

Moderates within the PLO had favored such a meeting early this year, when King Hussein warned off U.S. pressure to join the peace initiative of Egyptian President Anwar Sadat last November. But radical Palestinians rejected the idea, saying that King Hussein must at least renounce his refusal to allow guerrilla bases on Jordanian soil.

Diplomats said that it was virtually certain that King Hussein would stand by his ban on guerrilla activity.

"The hardliners are coming to Hussein, not the other way around," a diplomat said. "The terms for any lasting rapprochement will be Jordan's."

## Cyprus Delays Execution of 2 Palestinians

NICOSIA, Sept. 22 (AP) — The Cyprus Supreme Court has granted a government request to postpone again the execution of two Palestinians convicted of the assassination in February of an Egyptian newspaper editor.

The high court agreed to postpone the execution, which would be the first here in 15 years, until Nov. 15, after Attorney General Constantinos Tormerides said that further investigation was necessary before a decision on mercy could be made by President Spyros Kyprianou. This is the third postponement.

Samir Mohammed Qadar, 28, and Zayed Hussein Alali, 26, were sentenced to death in April for the murder of Youssef Sebati, editor-in-chief of Cairo's Al-Ahram newspaper and a friend of Egyptian President Anwar Sadat.

Mr. Sebati's murder here prompted Egypt to send commandos to Cyprus to rescue hostages taken by two Palestinians. Cypriot national guardsmen killed 15 Egyptian commandos in the aborted rescue attempt.

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Prime Minister Menachem Begin waves to crowds of Israelis who greeted him outside Ben-Gurion Airport near Tel Aviv as he arrived home following the Camp David summit conference.

## On Arrival in Jerusalem

## Israelis Give Begin a Hero's Welcome

TEL AVIV, Sept. 22 (UPI) — Tens of thousands of Israelis today welcomed Prime Minister Menachem Begin home in triumph from his Camp David summit talks with Egyptian President Anwar Sadat and President Carter.

"We have laid the basis for peace in the Middle East," Mr. Begin said in a brief address at Ben-Gurion Airport.

"I wish on the house of Israel a year of peace, and with the help of God we shall sign a peace agreement quickly and be able to tell the world, not only in this generation

but in the coming generations, we will live in our land in peace, in honor, in freedom and with justice," he added.

An estimated 30,000 persons turned out at the airport, on the roads to Jerusalem and in the holy city to welcome him.

On Mr. Begin's arrival in Jerusalem by motorcade, Rabbi Moshe Porush extended an ancient Jewish welcome for conquering heroes — a twisted bread known as chalah and a glass of wine. The loaf was three feet long.

Thousands stood outside the airport terminal carrying hand-painted signs showing their support of him and chanting, "Begin, Begin, Begin."

More than 200 persons demonstrated against the Camp David peace accords under black umbrellas that symbolized Britain's 1938 appeasement policy toward Hitler carried out by Chamberlain.

Britain accepted Hitler's takeover of Czechoslovakia's Sudetenland in exchange for a promise that the Nazi leader would not seek further territory.

"Begin did what Chamberlain did in 1938 — he sold out our state," a protester said.

**No Promise, Begin Says**

(Continued from Page 1)

governing authority that includes residents of the West Bank and Gaza Strip who are supporters of the Palestine Liberation Organization, the Israelis will negotiate with them. "It may happen. We will have to take that risk," he said, adding that the Israelis would demand that the Palestinians "not disturb the peace."

• If the full autonomy plan and four-sided negotiations on the status of the West Bank and Gaza fail to produce a decision acceptable to Israel, the Israelis will simply maintain the status quo of occupation. "Nothing wrong will happen. Autonomy will continue."

• Israel feels that Mr. Carter gave a clear commitment to support Mr. Begin's vow that Israeli troops can remain on the West Bank after the five-year interim period ends, whatever decision is reached on the territory's final status. Mr. Begin said that President Carter gave that commitment by agreeing to include in the agreement a stipulation that "all necessary measures will be taken" to assure Israel's security "during the transitional period and beyond."

U.S. officials thus far have not disputed this view.

• Mr. Carter was told by Mr. Begin during the summit that while Israel did not want U.S. troops stationed in the area, it would agree to the setting up of U.S. military facilities and bases in Israel if the United States wanted them for global security reasons. Mr. Begin specified that this included the possibility of establishing a U.S. base in Israeli-held portions of the Sinai peninsula during the three years Israel has to return all of Sinai to Egypt. But he stressed that this would have to be done at U.S. initiative.

The interview was conducted a few hours before Mr. Begin left New York for home.

**Malaysian, Teng Confer**

HONG KONG, Sept. 22 (UPI) — Malaysian Foreign Minister Ahmad Rizauddin bin Ismail conferred with Chinese Deputy Premier Teng Hsiao-ping today in Peking.

**Bombs Damage Planes, Hangars in N. Ireland**

LONDONDERRY, Northern Ireland, Sept. 22 (AP) — Bombs wrecked aircraft and severely damaged hangars at an airport here today. No one was hurt.

Two five-seater Piper Aztecs were destroyed in a fire after two explosions at a hangar belonging to Keys Air, an air-taxi firm. A car and small truck were destroyed in the hangar.

Later a bomb exploded in another hangar containing two smaller aircraft belonging to the local flying club, badly damaging one of them. The Royal Ulster Constabulary said that there had been no warning before the blasts and no one had claimed responsibility.

The Provisional wing of the Irish Republican Army meanwhile claimed responsibility for seven bombs that damaged three factories in Belfast Wednesday night. Two policemen were slightly wounded.

**Somalia Denies Part in Gun Plot**

NAIROBI, Sept. 22 (AP) — Somalia has denied that a consignment of arms seized at London's Heathrow Airport was about to be flown to the Somali capital of Mogadishu.

A Ministry of Information spokesman, quoted on a radio broadcast monitored here, described the report of the arms seizure as "a malicious lie concocted by the enemies of Somalia."

The arms were found in packing cases labeled as "agricultural equipment." A British businessman has been charged with violating customs laws.

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## On Summit Accords

## Vance Fails to Get Backing of Saudis

RIYADH, Saudi Arabia, Sept. 22 (AP) — U.S. Secretary of State Cyrus Vance wound up his talks with Saudi leaders today without a commitment from them to support the Camp David peace accords.

Meanwhile, Syria informed him that it is postponing his scheduled visit there.

The Syrian announcement called it an "indefinite postponement," but Mr. Vance said that it was only a one-day delay and that he would be meeting with Syrian leaders on Sunday.

After a working lunch with Prince Sultan, the acting Saudi foreign minister, Mr. Vance said that he and the Saudis held "discussions in depth that were absolutely essential." But, as in Jordan earlier this week, he reported no commitments.

Then the Syrian government announced that it was postponing Mr. Vance's visit to Damascus, the scheduled third stop of his trip. The United States wants to try to temper President Hafez al-Assad's staunch opposition to the new Israeli-Egyptian agreements.

**Syrian Apology**

The Syrian announcement said that the Vance visit was being put off because the three-day-old summit meeting in Damascus of hard-line Arab leaders was extending through the weekend. It said that Mr. Assad had apologized to Mr. Vance for the inconvenience.

There was no immediate explanation of any additional reasons for the postponement.

Speaking privately here, U.S. officials said that they were not discouraged with the Vance trip so far and that they would continue to push for at least an Arab willingness to let the Camp David plan go forward.

"It has gone about as expected," an official said. "It's too early to tell what Jordan and the others will do."

Mr. Vance yesterday wound up two days of meetings with King Hussein in Amman, and while Foreign Minister Hassan Ibrahim said that Jordan would keep the dialogue going with the United States, he repeated King Hussein's initial reservations about the failure of the plan to guarantee complete Israeli withdrawal from occupied territories or the rights of Palestinians to form a state.

The Saudis have denounced the accords as unacceptable as a framework for a final solution to the

Middle East problem. The reasons are similar to those of Jordan. But for the deeply religious Saudis, a particular problem is the failure of the accords to deal with occupied Arab Jerusalem, the site of important Islamic holy places.

The U.S. position on the key issues is that Israel, in the Camp David accords, agreed to a partial withdrawal from occupied lands. Mr. Vance has argued that once it has begun, the withdrawal process will acquire momentum.

But his ability to make a case has been hampered by the dispute with Israel over exactly what Israel agreed to at Camp David.

The most important squabble concerns Israel's freeze on new settlements in the West Bank area. Israel contends that the pledge applies only for three months. The United States says that it applies for five years.

In the West Bank today, some members of an ultranationalist settlers' group whom troops evicted yesterday from an unauthorized outpost returned to the site in an open challenge to Prime Minister Menachem Begin to have them forced out again. The group has denounced the Israeli leader's agreement to freeze the settlement program.

## Israel Reports Oil Find Inside Pre-1967 Line

TEL AVIV, Sept. 22 (UPI) — Israel has struck oil for the second time in a month and the latest find is inside its pre-1967 borders, a spokesman for the Energy Ministry said today.

The previous strikes were along the Gulf of Suez coast off occupied Sinai, which Israel is to return to Egypt as part of the Camp David accords.

The present drilling is in an area 19 miles southeast of Tel Aviv where signs of oil were found in 1956. "The signs are most promising," Energy Minister Yitzhak Mordechai told the newspaper Yedioth Aharnoth.

The paper said that it would take several weeks to determine whether the well can produce commercial quantities of oil.

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Theater in London

'Dracula' for Students of Stage Design

By John Walker

LONDON, Sept. 22 (IHT) — Style is difficult to define, for the same reason Fats Waller gave when someone asked him what swing was — if you got to ask, you ain't got it.

Both Trevor Nunn's production of Shakespeare's "As You Like It" at the Aldwych Theatre and Denis Rosa's warmed-over "Dracula" at the Shaftesbury Theatre have style, although neither quite lives up to Richard Eberhart's description of the quality as "the perfection of a point of view." But whereas, for all the imperfections, Shakespeare benefits from Nunn's treatment, Dracula wails under Rosa's adornments.

It seems usual for critics to go to melodrama and praise the scenery. (Hazlitt was much taken with the barn and overpowering effects of the decor when he reviewed "The Vampire" in 1820.) And Edward Gorey's designs for "Dracula" are notably stylish, delicately macabre studies in black and white, with just one blood-red touch in each scene.

Unfortunately, they do the play no good. They are full of an artist's detail and are frequently more interesting than the drama unfolding in front of them, a leisurely adaptation of Bram Stoker's novel done in the 1920s by Hamilton Deane and rewritten for the American stage by John L. Balderston. Not only is the scenery distracting, but its one-dimensional cartoon style proves an impossible background for the cast to act against, although they try hard to resemble one-dimensional cardboard cutouts being manipulated by the cunning hand of their director.

**Easy Laughter**

Gorey's style is witty and misanthropic, full of a distanced melancholy — Rosa's is straightforward camp, a stylized parody of 1920s acting at its cinematic worst, using bathos as a means of easy laughter. It is a style that is an evasion of emotion, particularly those sexual ones which form the appeal of vampirism.

The original Broadway production of the play in 1927 made a star of the man who played the title role: Bela Lugosi. This one is likely to have precisely the opposite effect on the career of Terence Stamp. His cockney Dracula is not so much undead as moribund, providing a vacancy at the center of the play, where energy and panache are needed.

Rosalind Ayres is more successful in suggesting a typical whey-faced victim, Nicholas Grace rolls his eyes and jerks his body effectively as the lunatic Renfield, and Rupert Frazer's young hero is dashing enough to suggest that he would have made an excellent Dracula. But all are trapped within the narrow limits of Rosa's style, so that the bat that occasionally flits in and out seems the only character not on the end of a string.

This is the second "Dracula" to be imported recently from New York to London and it reveals much about current commercial theater that both shows are of interest only to students of stage design. Gorey's bat-infested decor for the interior of Dr. Deeward's sanatorium makes little dramatic sense and is not as theatrically effective as Farrar's many-windowed dome for "The Passion of Dracula." But as to which is the better play, that would be like trying to decide the order of precedence between a flea and a louse.



Charlotte Cornwell (left) and Cherie Lunghi in "As You Like It."

function as a place of shelter and rejuvenation.

The central love affair between Orlando and Rosalind is shown to be both ridiculous and touching. James Laurence's Orlando is tongue-tied, bashful and often unsure of himself but filled with happiness through his love, and Charlotte Cornwell's coquettish Rosalind burns with an eagerness for experience.

Nunn's real triumph is to make what often seems dull fooling into delightful comedy. Touchstone's disquisition on the etiquette of dueling, which, on the page, seems totally dead satire, is transformed by Alan David into a hilarious vaudeville routine. And Jane Carr's pouring Phoebe, full of passion for the disguised Rosalind, enlivens every scene in which she appears.

Nunn's style succeeds where Rosa's fails. He can gently ridicule the conventions of the play — it is difficult, for instance, to take as anything but fun the sudden appearance of Hymen, creaking down

from the flies in a golden shell resting on clouds and a rainbow — but the amusement is not a means of avoiding the emotional realities of the play. It is based on affection and designed to enhance the drama, rather than merely mock it.

Munich Announces Music Prizewinners

MUNICH, Sept. 22 (AP) — An American duo of Carter Brey and Barbara Weintraub won second place Wednesday in the collo-piano division of the international music competition sponsored by West German broadcasters.

The judges decided against awarding first prizes in any category this year. No reason for the decision was given.

Another American, Jacqueline Peige-Green, 27, shared third prize with Keiko Hibi of Tokyo in the women singers' category.

James Ross, 19, of Boston shared third prize in the horn division with Zdenek Divky of Czechoslovakia.

Art in France

Vestiges of Romanesque Sculpture

By Michael Gibson

NICE (IHT) — The charming little museum in Cimiez, a hilly suburb of Nice, devoted to the works of Marc Chagall on Biblical themes (his ungainly French name is Musée National Message Biblique Marc Chagall), is offering a temporary exhibition of Romanesque sculpture from Toulouse (Avenue du Docteur Meunier, Nice, to Nov. 13).

The splendid and moving vestiges of a vandalized treasure come, for the most part, from three great cloisters which were destroyed in the wake of the French Revolution, not out of revolutionary fervor, but, it is said, for the benefit of real-estate speculators who wanted the land.

The works are on loan from the Musée des Augustins in Toulouse, which is presently being renovated. The story of their survival is an intricate one, and the major figure in this piece of minor history is the attractive one of a self-taught archaeologist, the Chevalier Alexandre Dumege.

Art Center

Toulouse, it should first be said, was one of the great centers of religious art in the period concerned — the 12th century. It stood on the road to Compostello, the path taken by countless pilgrims on a journey to the shrine of St. James in northern Spain. Under the firm leadership of the counts of Toulouse and a strong clergy, an articulate and refined religious culture developed in that city. The works thus produced survived the various trials and torments of the region and were not destroyed during the Revolution although the great buildings were abandoned or used as storehouses for forage.

It was in this form that they entered the 19th century.

Dumege was "Inspecteur des Antiquités" in Toulouse in 1810 when the minister of the Interior sent out a circular asking the prefects of France to inform him about the state and current use of various trials and monuments still remaining standing in their territory.

Dumege got off to a bad start. At the time he was interested only in Roman and Gallic vestiges, having originally come to archaeology out of a curiosity about Egyptian antiquity. And his particular interest came out of his being a Freemason. So he failed even to mention the three major monuments still standing in Toulouse and in only a few years there was nothing left of them.

Poor Dumege. Ten years later he started trying to save what could still be saved. In the intervening years he had discovered the beauty of this art which he had up to then ignored and, in fact, most of what remains today, some 200 sculptures and capitals, are there thanks to his efforts.

The three monuments show three distinct styles. The statues from the Cloister de la Daurade are heavier and they are unfortunate in having been painted over in a muddy color. This coat of paint has not been removed because of the risk of removing whatever may remain of the original polychrome, if any. The capitals, however, are as delicately carved as any from St. Etienne or St. Sernin.

Seeing the capitals at eye level is particularly satisfying for anyone accustomed to peering at such works through binoculars. One can study them at leisure and, with more comfort, appreciate their relative simplicity and their extraordinary stylistic virtuosity.



A capital from the Musée des Augustins in Toulouse.

Entertainment in London

Bette Midler Starts Tour Of 'Sleaze With Ease'

By Henry Pleasants

LONDON, Sept. 22 (IHT) — Bette Midler opened a four-night run at the Palladium last night — and the beginning of a first and extensive European tour — giving a packed and adoring house a vivid demonstration of what she means in describing her act as "trash with flash" and "sleaze with ease."

It was, indeed, an astonishing demonstration, beginning with the plain fact that she held stage center — well, stage center, right and left — for two solid hours, and, with the sleaziest of material, held the audience, too.

In discussing the accomplishments of the "divine miss" (the "divine mess" in her own words), it is vain to speak of material. The material is Miss M herself — as singer, raconteur or, as the critic of the Guardian put it, "stand-up blue comedienne."

One is tempted to suggest that her act is a triumph of personality over artistic ineptitude and bad taste. But that's not getting it quite right. She has talent — although

hardly as a singer — and in piano-mime and mimicry she even achieves artistry.

One skit in particular, last night, was comedy — mostly pantomime — of a high order. That was when she emerged from the wings as an aging Dolores Delaney, "The Feast of Chicago," outrageously costumed as a mermaid in a hideously decorated electrically operated wheelchair.

Even as a singer, whether belting or whispering, she somehow gets away with a house, quavery contralto, or, or is it eccentric? — intonation, by seeming to be putting herself, her voice, her song, her singing and the audience on, succeeding, phenomenally, in being quite engaging — some of the time.

The overall impression, however, was of a frenetic performer shrewdly and joyously exploiting both shortcomings and assets in satisfying an inexhaustible urge to make a public spectacle of herself. She is obviously irresistible, and ends by being — irresistible.

On the Arts Agenda

A weekend mostly of Handel is scheduled for Sept. 23 and 24 at the Grange de la Besnardiere, north of Tours, includes a staging of the opera "Giulio Cesare," with a cast headed by Anna Reynolds and a chamber group of Radio France's Nouvelle Orchestre Philharmonique conducted by Charles Farncombe. Bengt Peterson will stage the work. Marie-Claire Alain will be the soloist in three of Handel's organ concertos, and Anna Reynolds and harpsichordist Rafael Puyana will be the soloists in a concert of works by Haydn, Mozart, Rossini and Schubert, both conducted by Farncombe.

The Frankfurt Opera's first new production of the season will be of Offenbach's "La Vie Parisienne," in a version of the Mailhac-Haley libretto by Jerome Savary, who will stage it. David Pieter de Villiers will conduct, the sets and costumes will be by Jean-Marie Fievez and Michel Dussarat, and the cast will include Gabriele Fuch, Hildegarde Heichele, Anny Schlemm, Bodo Schwanbeck and Harald Serafin. The premiere is scheduled for Oct. 1, with later performances set for Oct. 7, 14, 18 and Nov. 5.

The Concerts Colonne in Paris with the 1978-79 season — the orchestra's 105th. The season opens Oct. 8 at the Theatre du Chatelet with Henryk Szeryng as soloist in violin concertos of Bach, Brahms and Beethoven, and Dervaux's anniversary concert on Oct. 15 will have a program of Beethoven's Fifth Symphony and Berlioz's "Symphonie Fantastique." Both concerts are at 6:30 p.m.

The Salle Favart (Opera Comique) reopens Oct. 6 under the overall direction of the Paris Opera with a new production of "Le Medecin Malgre Lui." Gounod's comic opera based on Moliere's play, Sylvain Cambreling will conduct. Jean-Louis Martin-Barbez is the stage director and the sets and costumes are by Pierre-Yves Leprince. Jules Bastin, Denise Perrier, Jean Dupuy and Jocelyne Tailleur sing the principal roles in the opening-night cast. A total of 12 performances are scheduled through Nov. 30. There also will be a revival of last season's production of Massenet's "Werther" on Oct. 25, with eight performances scheduled through Nov. 11.

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WASHINGTON, Sept. 22 (UPI) — The average American earned \$7,019 last year, an increase of 9.6 percent from 1976, according to a Census Bureau survey.

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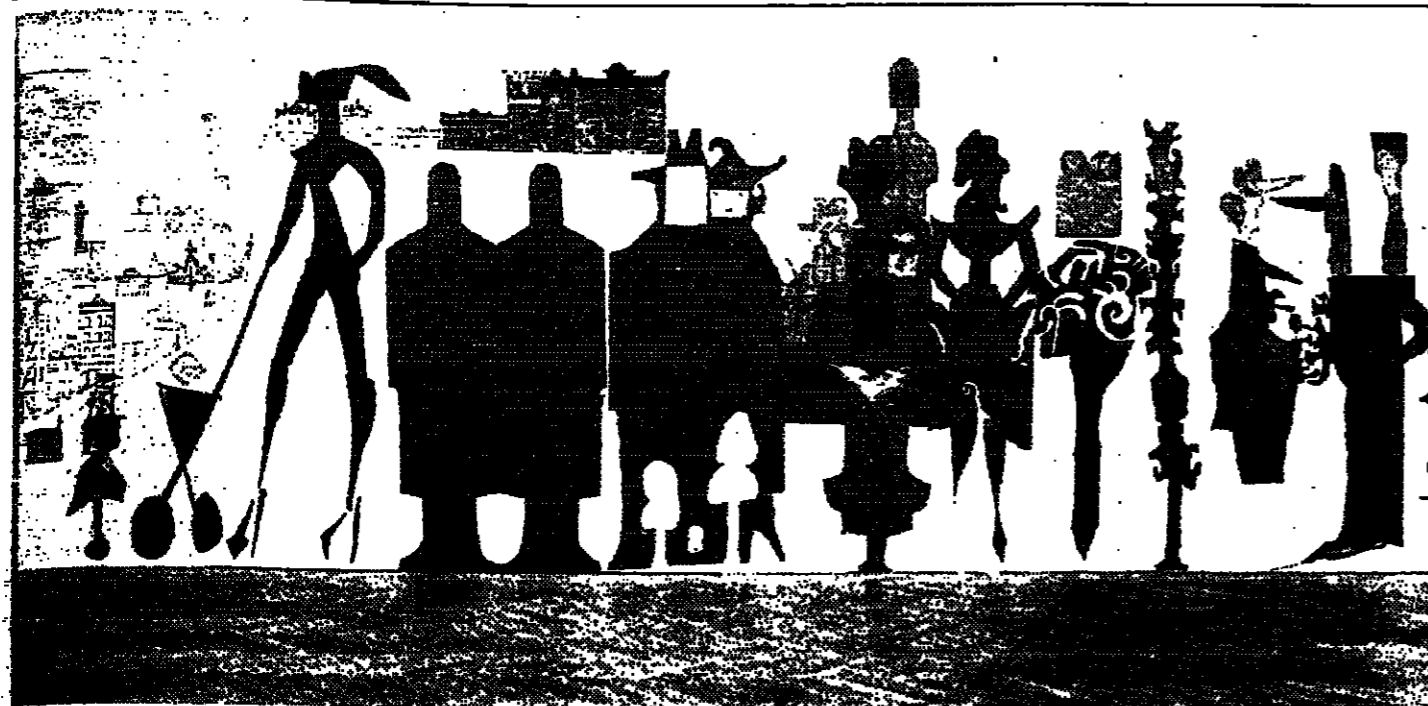
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One of Steinberg's large murals originally drawn for the U.S. Pavilion at the 1958 World's Fair in Brussels.

## Around the Galleries in Brussels and Paris

### Brussels

**Steinberg Murals.** American Library, AG Building, Porte Namur, Brussels, through October.

Swaddled in protective wrapping, stashed away among the rest of the Fine Arts Museum's reserve stockpile of art, a whole batch of Steinberg murals, long unloved though not unwanted. Designed for the American Pavilion at the World Fair of 1958 held in Brussels, these huge panels were one of the big attractions of that event. Now, 20 years later, some of them have moved into the limelight again and are on show at the American Library. Culture Service officials, dazed with excitement at this moment free loan, all the more welcome since funds for the art shows which used to be a regular and popular feature of the library program were cut off abruptly more than a year ago, regret only that they couldn't fit in more of the Steinberg panels. Space with ceilings high enough to accommodate them was limited.

Coming after the Whitney Museum Steinberg show in New York, it is topical and fascinating to see these Steinberg personages created specifically to present an artist's view of America to the world. Elongated, spindly Steinberg figures with the familiar squared-off profiles strut and stroll and loiter against American backgrounds: big city, small-town Main Street, Middle West farming community, Far West. Shoppers, farmers, posed outside unlikely looking turreted farm houses, dauntingly dour majorettes goose-stepping through California, ghastly little dogs and their owners, these figures form an all-American frieze around the walls.

The California mural alone is made up of 24 panels, but only one small segment can be shown here. Already the planners are dreaming of a "Steinberg II, Steinberg III" and on until the treasure trove has been aired in full. Assembling the Steinberg murals in their entirety will have to wait for the opening of the new Belgian Modern Art Museum, nearly 20 years in the planning stage, now at last under construction and scheduled for completion before 1982.

\*\*\*

**Spillier.** Galerie Isy Bracht, 62A Avenue Louise, Brussels, to Oct. 7.

A symbolist with a strong sense of the surreal before surrealism became an established movement, Spillier's best work seems to have been done mostly between the early 1900s and the early 1920s. His paintings in the Paris show of Flemish Art held in 1970 at the Orangerie were a revelation to a large public, in tune with the subtle swing just starting toward understated romanticism. The watercolors, gouaches and pastels in this show are disappointingly minor, with little of the gentle magic he could impart to form and color.

Rather banal landscapes in faded colors are relieved here and there by more characteristic paintings of a stand of slender dark trees in a flat winter landscape. A dramatic

portrait of Gorki makes the strongest impact, but a theatrical piece of art nouveau symbolism with an indeterminate Eve figure, light-haloed into a vague crouching ball of golden fluff confronting a plumply curved serpent, does little for his reputation. A small, very lightly sketched early work showing a circle of figures locked in battle as if dancing a ballet has a touch of true theater.

\*\*\*

**Cousins.** Sculptures, Locus, Photographs, Galerie Dautenberg, 76 Rue Dautenberg, Brussels, to Oct. 7.

American sculptor Harold Cousins has lived and worked in Brussels for 10 years, has large-scale sculptures in Belgian and other European museums and private homes. These pieces are on a manageable scale, and, in keeping with the musical activities of the gallery owner, some have been chosen for their allusion to music: A pop singer caught in a cage of microphones, an Orpheus metal mask, a more abstract Orpheus composition sculpted as a stringed instrument with notes of music and a dancing figure in the show as well as his characteristic phalanges of bronze plates presented in shield-like formation, and airy, open screens of interlaced rods and struts of copper and bronze. A genial little acrobat performing on bars was one of the first transition pieces from abstract to more figurative formations.

Daniel Locus' photographs are all of the sculptor, including a life-sized study of Cousins among greenery which has been cunningly placed in the gallery garden to startle and surprise. The pictures are of high quality, with inventive angles and lots of imagination, but the limitation to one subject doesn't allow for enough virtuosity.

The American musician-owner of the gallery celebrates each exhibition opening with an informal concert of classic or contemporary music in the art setting after the ritual viewing.

\*\*\*

**Roland Renson.** Luc Lateur, Galerie Angèle Aigu, 96 Avenue Louise, Brussels, to Sept. 26.

Traditional surreal fantasy, always popular with Belgian artists, seasoned with a good bouquet of exotic vegetation, a sliver of erotic nudism, a pinch of Max Ernst in the feathered cloaks and beaked bird heads draped over human figures, is Roland Renson's recipe for his ink drawings and etchings. Style and execution are polished and academic, though it breaks through in sprightly fashion here and there, as in his giant sponge brooding on the bank of a Venice canal. His pottery pieces are stylishly made and have nicely varied patina and conventional forms.

In the top-floor studio, Luc Lateur, a biologist by profession, shows attractive abstract pastels, owing rather too much to Poliakoff to succeed in their own right.

\*\*\*

**Tom Baché-Wiig.** Galerie Govaerts, 255 Avenue Louise, Brussels, to Sept. 30.

Baché-Wiig, a self-taught Norwegian artist who is also a

practicing doctor in a small town in Norway, paints lyric abstractions with a sense of glowing color, even intently attempting to capture the Aurora Borealis in paint. His palette is sometimes deeply poetic; one work, entitled "Melancholy," has a core of iridescent midnight blue, flecked with yellow sunspots, surrounded by heavier more opaque blue cloud masses, that succeeds in simultaneously disturbing and soothing the mind and eye. Fishing boats in another painting in a ruby red on a violet sea, in deeply shadowed color, have a secretive appeal, but brushiness sets in with some of the brighter, harsher abstractions.

—RONA DOBSON.

### Paris

**Germaine Richier.** Galerie Beau-bourg, 23 Rue du Renard, Paris 4, to the end of October.

Richier (1904-1959) studied first with one of Rodin's former assistants, then with Bourdelle, and in time developed a rough and powerful style, both allegorical and elemental. The present retrospective exhibition assembles characteristic works, both large and small, of which the most striking is probably "L'Orage" (The Storm), a hulking, threatening, featureless figure which illustrates Richier's expressionism and her taste for allegory at its best. It is worth noting that Richier elaborated her tattered treatment of surfaces at about the same time that Giacometti was evolving his own style without volume.

Smaller sculptures are interesting both for their individual qualities and for what they reveal of Richier's inventiveness. Many are made from a single flat piece of clay which she folded and shaped in a rudimentary way until it came to life. Richier, rather than a radi-

cal innovator, was a powerful temperament breaking out of a traditional mold. The mold is still recognizably there, her statues are based on models which could be encountered in parks, for instance. But her temperament has wrought a sea-change upon this all too familiar base. "She was as uncultured as I am," said Cesar, "or almost."

What he seems to imply is that no intellectual theory guided her work, that the innovative force sprang from an intensity of experience rather than from a deep philosophical perception which is apparent, say, in the work of a Giacometti.

\*\*\*

**Domenico Gnoli.** Galerie Isy Bracht, 35 Rue Guenegaud, Paris 6, to Nov. 10.

Domenico Gnoli, the son of an art historian, died eight years ago of cancer at the age of 37. This exhibition is something of a small retrospective, including works done between 1958, when the artist was 25, and 1969, the year before his death. For what such labels are worth, his work might be described as "metaphysical pop." Aside from the earlier works, which are painted on sand and reveal a pleasant sensibility, all the rest of his production is devoted to careful acrylic representations, much enlarged, of details of clothing. Thus, the opening of a pocket in a berrington jacket is 100 by 140 centimeters.

The difference with the spirit of pop is that Gnoli attempts to give the object an intense, individual presence ("metaphysical") without the ambiguous irony of pop, which revels in banality as much as it derides it. Whether Gnoli was really successful is another matter. The exhibition contains 23 items, including four bronzes, which, characteristically, are a tie, a pair of pressed trousers, a large high-heeled shoe on a shoebox, and a bust reduced to a jacket, shirt and tie.

—MICHAEL GIBSON.

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## The Art Market

### The Unresolved Case of a Stolen English Carving

By Souren Melikian

LONDON, Sept. 22 (IHT) — As art thefts increase daily, one may wonder whether the art market has not developed into a major threat to the survival of ancient art. The case of an English carving which was stolen in January and is currently at the heart of a little-publicized legal wrangle shows that current international law is inadequate, public concern at a low ebb and police action hardly up to the mark.

The church of St. Mary the Virgin at Burghfield, in Berkshire, provides the setting for the first act of the drama, while the second act opened at the Antiques Fair in Ghent, Belgium, last April.

The church at Burghfield is undramatic in appearance. It looks like hundreds of other 19th-century churches, for despite its ancient foundation, it was virtually rebuilt from the bottom up in 1843, and is best known to a handful of specialists for its chancel, designed by Bodley, a neo-Gothic artist of the early Victorian period.

Victorians liked their work to look neat. When confronted with a funerary wooden statue of a reclining knight 6 feet 6 inches long, missing its left arm and right hand and showing a few chinks as a result of six centuries' rubbing shoulders with the yokes of a country church, they bundled it off under the belfry steps. In 1931, it was "rediscovered" in the course of repairwork and our century, being a shade less arrogant than the Victorian era, put it up on a pedestal by the altar.

London Workshop  
Specialists had known all along that it was a key piece of English carving. It is closely related to a reclining figure in Westminster Abbey datable circa 1310 and belongs to a small group ascribed beyond doubt to a workshop in London.

But specialists care for history rather than beauty and its reproduction in a heavy volume called "Wooden Monumental Effigies in England and Wales" by Alfred C. Fryer in 1924 never caused much of a sensation.

It was hardly recognized for what it is: one of the masterpieces of 14th-century European carving. The long tunic loosely draped around the slender body is handled with a grace and freedom seldom matched in continental sculpture of the time. The shadow of a smile playing on its closed lips is suggest-



The stolen knight.

ed chiefly by the subtle modeling of hardly perceptible dimples. Some mystery, thus far unnoticed, is attached to this figure, a suggestion carried on by the feminine legs.

The wooden figure might have continued its peaceful if dusty life, perched on its 1931 plinth, had it not been for two petty thieves. The latter must go down in history, anonymously or not, as the true artisans of its rediscovery.

And now for the second act of the drama. As he strolled about the Ghent Antiques Fair, Christopher Foley, who runs Lane Fine Art in London and takes a special interest in English sculpture, had a shock of surprise on spotting a "15th-century Flemish" carving with a remarkably English appearance. The asking price was £10,000. Back in London, Foley found an illustration of the piece in the "Stolen" section of

the Antiques Trade Gazette, a professional monthly.

Foley contacted Scotland Yard, which told the local police, who informed the church. Everything was kept quiet for a while in case the police should find a lead. Negotiations with the Belgian dealer, who bought the carving in good faith from a legitimate source, are lengthy. Finally, Scotland Yard induced its Belgian colleagues to impound the piece — in other words, freeze it in police custody without denying the dealer legal ownership.

As the matter stands, it is now up to the parish of Burghfield to find the money to buy back what had been its own for over six centuries. The present squabbling is how much the dealer should be getting on top of his buying price, which appears to have been £4,000, the 250-percent markup being fairly common practice, if never acknowledged as such, in the trade. The obviously gallant gesture for the Belgian government would be to foot what is a trifling bill in national terms and to return its treasure to an impoverished country parish, but this solution has not, it seems, been considered.

If the parish fails to produce the money, it will lose its property — and so will Britain.

But the truly remarkable aspect of the story lies not just in the scandalous legal situation which allows a state not to feel responsible for the trading of stolen property within its boundaries. It is the public reaction in the country of origin, or rather its absence, and the deficiency of international control systems.

### Media Unconcerned

In times of universal concern for national heritage, one could have expected an outcry. There was hardly a ripple. National media appeared unconcerned. In January, a short notice came out in the Guardian. In August, the Times of London gave it just over 130 words in its "Diary" under the sparkling title "Belgian Police Hold Sir Roger," and the Guardian published two short letters from readers. The lack of a famous name — like most of medieval sculpture, this carving is anonymous — is partly the reason for this neglect.

Police interest, also, was not of the most active nature. Could it be that art just does not matter all that much?

Most extraordinary is the ease with which such a large object was

slipped out of the country. In the words of a British expert who asked to remain anonymous, "If a piece of sculpture of the importance and size of the Burghfield effigy, and stolen to boot, can be exported without, presumably, either the export-licensing or the Customs Excise authorities being aware of the fact, it can hardly be claimed that the present control system is working satisfactorily."

Had the theft received greater publicity, greater vigilance might, of course, have been exercised.

Reforms are urgently needed. This week a short news item in the French daily Le Monde mentioned the recovery in Belgium of three stolen carvings, one from a French church, and Italy is currently being stripped of its church treasures. Just how bad the situation is can be measured by the fact that at about the same time as the Burghfield theft, another carving of the same period and size was stolen at Hildersham in Cambridgeshire. It had never been photographed despite its reputed importance and has not been heard of since.

Two measures could be taken immediately: the photographing of any item of historical interest at the local level, and the working out of some sort of international agreement on recovery procedures that would keep red tape to a strict minimum. A provisional agreement within two months would be preferable to a detailed draft in 10 years.

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<p>TORQUAY £1,800,000</p>	<p><b>Sotheby's</b> The world's leading auctioneers 1977/78 SEASON SALES</p>	<p>NEW YORK £54,900,000</p>
<p>LOS ANGELES £6,000,000</p>	<p>TORONTO £500,000</p>	<p>AMSTERDAM £5,496,000</p>
<p>ZURICH £6,550,000</p>	<p>ST. MORITZ £2,880,000</p>	<p>MONACO £2,588,000</p>
<p>FLORENCE £860,000</p>	<p>HONG KONG £3,284,000</p>	<p>JOHANNESBURG £582,000</p>

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High	Low						High	Low						High	Low					
1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001

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Economic News Analysis

Two 'Timebombs' Facing West

By Paul Lewis

PARIS, Sept. 22 (NYT) — Two timebombs, strategically placed at the heart of the Western economic system, are starting to fizzle ominously, just as world finance ministers gather in Washington for next week's annual International Monetary Fund meeting.

Both timebombs, if allowed to detonate, threaten to undermine the existing open economic order that has been the foundation of Western prosperity since the end of World War II, provoking a further retreat into protectionism and straining political relations between Europe and the United States.

The first issue raised its head earlier this week, when European governments bluntly warned President Carter he will find himself presiding over a Western trade war next year if he does not persuade a recalcitrant and protectionist-minded Congress to make some rapid changes in U.S. trade law.

The problem is that under existing U.S. trade law, President Carter will be obliged to start imposing countervailing duties Jan. 4 next year on some \$500-million worth of mostly agricultural U.S. imports from Europe that are deemed to be subsidized.

At present, this obligation is suspended in order to facilitate negotiation of a new set of international rules governing such trade subsidies as part of the big trade-freeing deal, which the major Western powers hope to conclude in Geneva on Dec. 15, after five years of bargaining.

trade freeing that might still be salvaged from the Geneva negotiations.

All the signs are that the Carter administration is taking this threat to the Geneva trade talks seriously. And special trade representative Robert Strauss is now pleading with congressional leaders to extend the president's waiver authority and prevent the Western world sliding back into protectionism and recession. Nevertheless, the view in Europe is that Mr. Strauss will need all his formidable powers of persuasion to succeed.

The second timebomb is the dollar, which after a brief respite has been on the skids in Europe again this week and whose fortunes are certain to dominate corridor discussions at next week's IMF parity.

Like the dispute over countervailing duties, the dollar's weakness is also a direct threat to the Geneva trade talks and the West's commitment to an open international economic order, which they have come to symbolize. But the threat comes in various ways.

So far, there have only been muted complaints in Geneva about the dollar's weakness, although it means the United States is being paid twice over for the trading concessions it offers — once by getting other countries to reduce barriers against its own exports and again, because the falling dollar makes its exports even more competitive on their markets.

Meanwhile, the weakening dollar is starting to leave its mark on other aspects of the present international economic system, arousing new hopes and new suspicions, which finance ministers will be discussing in Washington next week.

West Europe, now convinced more stable exchange rates are a prerequisite for any revival in investment and employment, is scurrying to lock its own currencies more firmly together in a new "zone of monetary stability."

But the United States, while outwardly sympathetic, fears such a new European monetary bloc could fracture the present world system, undermine the authority of the IMF and perhaps seriously curtail America's own freedom of economic maneuver, which has brought the dollar to its present pass.

Although the dispute over countervailing duties will resolve itself one way or another within the next few weeks, the dollar timebomb promises to be a difficult one to defuse in a hurry.

A deep U.S. recession next year might do the trick, squeezing inflation out of the economy and cutting the trade deficit. But the rest of the world would pay through slower trade growth and increased protectionist pressures.

One way or another, therefore, it looks as if the dollar timebomb will be ticking away under the international economic system for some time to come. It remains to be seen how far the strain of living in the shadow of this bomb changes the nature of the system as we know it today.



MONETARY ZONES SEEN — Belgian Prime Minister Leo Tindemans (center), visiting Japan, has called for the creation of three major "monetary zones" since the present world-wide system of floating exchange rates was obviously inadequate, allowing excessive exchange rate changes. He envisaged a European, a Japanese-yen and U.S.-dollar zone, with minimum exchange-rate fluctuations among them. Here, Mr. Tindemans addresses Federation of Japan Economic Organization luncheon flanked by Shigeo Nagano (left), Chamber of Commerce president, and T. Mizukami, Export Trade Organization president.

Coping With Lopsided Trade and Payments Balance

Sluggish Growth Backdrops World Bank-IMF Talks

By Hobart Rowen

WASHINGTON, Sept. 22 (WP) — Against a background of sluggish economic growth — except in some parts of the Third World — and lopsided trade and balance-of-payments accounts, the World Bank and International Monetary Fund will stage their 33d annual joint meeting here, beginning Monday.

Major preliminary events actually get under way today and tomorrow with separate sessions of the rich and poor nations' steering committees, the Group of 10 and the Group of 24. The joint IMF-World Bank Development Com-

mittee, which deals with the transfer of resources to the less developed countries (LDCs), meet tomorrow and will do so again on Wednesday.

And Sunday, the basic tone and much of the content of the four-day meeting will be set by a session of the IMF policy-making group, the so-called Interim Committee, chaired this year by British Chancellor Denis Healey.

The Interim Committee will discuss the world economic outlook, monetary instability — including the problem of the dollar — and the two main specific issues to be decided during the meeting — a

new quota increase and a new allocation of SDRs (special drawing rights). These two steps would substantially increase the resources — hence the lending ability — of the IMF. SDRs — each worth about \$126 — are a paper credit or asset created by the IMF for distribution to its 134 member countries.

Details of the Interim Committee discussions will be disclosed by Mr. Healey and the manager-director of the IMF, former director of the French treasury Jacques de Larosiere, at a Sunday press conference.

The joint sessions, with carefully planned speeches by leading finance ministers representing scores of big and little countries, will then be in the hands of Tengku Razaleigh Namanah, 40-year-old finance minister of Malaysia. Major addresses will also be delivered by Mr. de Larosiere and by World Bank president Robert McNamara.

Preparations are being made for the probability that President Carter will address the opening session attended by 3,500 delegates, advisers and official guests.

Despite the slow and uneven growth of the many different economies, the threat of protectionism, high unemployment — especially in Western Europe's industrial countries — and gyrating currency movements, no new macroeconomic strategy is expected to come out of next week's sessions.

The prescription for the United States is to allow its economic growth rate — which has been faster — to subside, meanwhile making an effort to control inflation and reduce its enormous trade deficit.

The scenario for the other countries is to do what they can to boost growth or contain inflation.

The Interim Committee is likely to note the prospective improvement in U.S. trade and to nod approvingly at U.S. efforts to support the dollar. There will be a pat on the back, also, for West Germany and Japan, which have installed expansion programs. In a nutshell, the leaders will conclude things are moving in the right direction, but perhaps not at the optimum speed.

A key issue relates to the scheme designed by West German Chancellor Helmut Schmidt and French President Valéry Giscard d'Estaing for a European Monetary System (EMS). The EMS would attempt to link European currencies together, more tightly than the present "snake" backed by a \$50-billion regional fund, contributed by European countries. Europeans affirm that there is no intention to compete with the dollar, but both the United States and the IMF have some reservations about operation of the EMS. No decisions about EMS are to come up at the IMF meeting, but there will be plenty of debate about it.

Some experts — including leading figures at the German central bank — think that the large credits West Germany would be likely to make to weaker countries, as part of the EMS, would create a new inflationary impetus. But others (notably the British) worry that the arrangements do not contravene IMF rules and that if European currencies float together against the dollar, the intervention that may be necessary does not weaken the dollar.

On specific issues or problems, these developments are among those expected to take place during the week:

• Saudi Arabia will get its own seat on an expanded 21-member IMF executive board, a status to which it is entitled by virtue of having passed West Germany as the second largest provider of funds to

W. German Group Said To Sign China Trade Plan

BONN, Sept. 22 (AP-DJ) — A West German industry group reportedly has signed an 8-billion-Deutsche-mark trade protocol with China that, for the first time, provides that China will receive credits to finance a portion of the orders.

The report said the German industry group, Eastern Germany (OD), an umbrella organization for West German industry groups involved in East-bloc trade, said both sides have yet to sign the agreement. However, the panel said it foresees no blocks to the signing.

The group said that included under the protocol are the construction of two open-pit mines, both with a capacity of 20 million tons a year, five new shaft mines, as well as the improvement and modernization of other existing mines.

U.S. Loans Considered

TOKYO, Sept. 22 (AP-DJ) — China might very well decide soon to accept loans from U.S. commercial banks, Christopher Phillips, president of the National Council for U.S.-China Trade said in Peking yesterday, Japan's Kyodo news service reported.

Mr. Phillips said China was moving to respond to international credit practices, though it apparently was not prepared yet to accept state-to-state loans, said the Kyodo dispatch.

Meanwhile, a delegation of Common Market officials and top EEC industry and banking representatives left for Peking today to investigate the possibility of increasing trade with China.

The group will discuss trade and industry problems with Vice Premier Li Chang who is also minister for foreign trade and other Chinese government officials responsible for industry and technology, the EEC commission said.

A visit of the Shanghai industry fair and talks with Chinese industry officials there is also included in the group's itinerary.

China to Raise Fibers Output

HONG KONG, Sept. 22 (AP-DJ) — China is boosting its production of synthetic fibers for domestic consumption and that of high-quality cotton, wool and silk for exports, according to the Peking Review.

The report said synthetic fibers will amount to about 40 percent of the textile industry's raw materials by 1985. It called for increased exports of all-cotton textiles, wool, pure woolen fabrics, raw silk and pure silk fabrics, which it described as favorites in many countries.

The magazine said China's rich oil reserves provide favorable conditions for producing synthetic fibers.

It said one petrochemical works in Shanghai is in operation while three others are under construction. Preparations are under way to build a number of petrochemical fiber plants with more sophisticated equipment, it added.

EEC Corrects Growth Report

BRUSSELS, Sept. 22 (AP-DJ) — The European Economic Community Commission said today that the projection of a 2-percent growth in the community's real gross national product for 1978 was erroneously reported in an official publication, explaining that the anticipated growth rate should be at least 2.5 percent for this year.

The erroneous figure was contained in the comment prefacing the commission's English version of its half-year report on the economic situation in the community. "We regret to say that was a printing mistake," a commission spokesman said, noting that the correct 2.5 percent figure was correctly printed in reports that came out in other community languages today.

Company Reports

Belgium		
Bekaert		
First Half	1978	1977
Revenue	639.00	276.00
(Figures in Belgian Francs)		
U.S.		
General Public Utilities		
8 months	1978	1977
Revenue	883.60	837.00
Profits	90.70	92.20
Per Share	1.51	1.65
12 months	1978	1977
Revenue	1,300	1,200
Profits	141.30	142.10
Per Share	2.36	2.55
PSEG		
8 months	1978	1977
Revenue	1,469	1,351
Profits	155.11	151.17
Per Share	2.04	2.06
12 months	1978	1977
Revenue	2,152	1,978
Profits	218.19	223.90
Per Share	2.84	3.05
(Figures in U.S. Dollars)		

Italy Reduces Ceiling On Bond Investment

ROME, Sept. 22 (AP-DJ) — The Italian government sharply reduced to 6.6 percent from 30 percent the percentage of deposits that banks must invest in bonds. The new percentage applies to the second half of this year. Eligible bonds include agricultural obligations or those issued by real-estate credit institutes.

The requirement, called a portfolio restriction, applies to new deposits and is designed to encourage investments even during tight credit periods.

M-1 Revised Upward

Fed Tightens Rates To Bolster Dollar

WASHINGTON, Sept. 22 (IHT) — The Federal Reserve Board today raised the fee it charges on loans made to member banks — the so-called discount rate — to 8 percent, equaling the highest it has been in history, and also indicated a higher target rate on federal funds.

On a 6-0 vote, the board said the action to raise the discount rate from 7 1/2 percent to 8 percent was taken "in recognition of recent increases in other short-term interest rates" and to "strengthen the dollar."

The discount rate also hit 8 percent between April and December of 1974, but it has never been higher. The Fed has now raised the discount rate five times this year.

The Fed also entered the government securities market to drain excess reserves through over-the-weekend reverse repurchase agreements as federal funds traded at 8 7/16 percent, dealers said.

They said they regard this as a signal of further tightening in monetary policy, apparently moving the Fed's target for the key rate to at least 8 1/2 percent compared with the 8 1/2 percent level presumed to be in effect since only Wednesday.

The rate on Fed funds, overnight reserves banks lend one another, are used as a base upon which all other interest rates are calculated.

After the move, bond and treasury bill prices fell sharply but the dollar showed virtually no reaction, dealers said. They added that trading was very quiet and thin as most operators have closed positions for the weekend, and said the reaction, if any, will likely come on Monday.

Late yesterday in New York, the Fed revised upward the growth in the nation's money supply due to technical adjustments involving funds transfers by agencies and branches of foreign banks in New York City and quarterly benchmark adjustments to reflect data for banks that are not members of the system and therefore do not report weekly data.

In its money supply revisions, the Fed said M-1 grew at an 8.1 percent annual rate in the first eight months of this year, up from an originally estimated 7.6 percent. The growth rate for M-2, a broader measure, was revised downward to 8.2 percent from 8.4 percent.

The 8.1-percent growth for M-1 is far faster than the 6.5-percent rate the Fed has stated was the maximum it could tolerate. M-2's 8.2-percent growth rate is close to the upper end of the Fed's 6 1/2 percent to 9 percent tolerable range.

Fed chairman William Miller had said earlier in the day he was disappointed with the latest money

supply figures, adding it looked like the Fed was not doing as well in controlling money growth as it had hoped.

However, during a presentation to a lawyers' group, Mr. Miller reiterated his previously expressed hope that interest rates would peak by the end of the year, noting that we have not yet reached the end of the year.

Prices Rise On Wall St.

NEW YORK, Sept. 22 (Reuters) — Bases on the New York Stock Exchange settled for a token gain today in the slowest trading in two months after more credit-tightening moves were digested by an oversold market.

The Dow Jones industrial average rose 1.30 points to 862.44 and advances led declines 776 to 656. Volume fell to 27.90 million shares from yesterday's 33.64 million.

Kennecott Copper slipped 1/4 to 27 1/2. Standard Oil of Indiana, which said it is evaluating some form of association with Kennecott, lost 1/4 to 51 1/4.

Ramada Inns, the volume leader, gained a point to 46 1/2. Caesars World tacked on 1/4 to 46 1/2, and Del E. Webb, which agreed to buy a casino in Nevada, gained 1/4 to 27 1/2.

Branniff forecast higher earnings and ordered 11 new planes from Boeing. It edged up 1/4 to 16 1/2. Boeing eased one to 64 1/2.

IBM dropped 3/4 to 280 1/2. Smithkline 1/4 to 89 and TeleTYPE 1/4 to 98 1/2.

Prices on the American Stock Exchange also rose, with the market value index gaining 0.80 points to 167.28.

In Chicago, wheat was substantially higher and corn, oats and soybeans lower at the close today on the Board of Trade.

U.S. Durable Orders Rise 7.6% in August

WASHINGTON, Sept. 22 (UPI) — New orders for durable goods rebounded strongly in August, rising by 7.6 percent for the largest monthly increase in nearly eight years, the Commerce Department reported today.

A large portion of the gain was attributed to a 60 percent rise in the aircraft and parts industry.

The August increase compared with a revised 5.3-percent drop in July, the biggest in 3 1/2 years, and a 1.7-percent dip in June, the department said.

Poehl Sees Growth Near Bonn Target

FRANKFURT, Sept. 22 (Reuters) — West Germany will probably achieve average real growth of over three percent this year, close to the government's original target of 3.5 percent, Bundesbank vice-president Karl Otto Poehl said today.

A strengthening of domestic demand, initially limited to the building sector and private consumption, has since spread to embrace almost all sectors including capital goods demand, he said in an interview.

Foreign demand for West German goods has developed less favorably under the influence of the mark's appreciation but has nonetheless gained since the spring, Mr. Poehl said.

His forecast is more optimistic than the government's own recently expressed expectations, for Economics Ministry state secretary Otto Schuler said last month industrial production stagnated in the

first half and the government is now expecting average 1978 real growth of around 2 1/2 percent.

Mr. Poehl said the rate of growth is quickening. Real GNP in the first half showed a 3-percent gain over the same 1977 period and the comparable figure for the second half could be 3.5 percent, he added.

The government's latest package of stimulatory measures will undoubtedly make a positive contribution to growth, but the extent and timing of its impact is hard to predict, he said.

The economic upturn has been reflected in the central bank money stock, the benchmark for monitoring money supply, which is currently growing at an annual rate of about 12 percent, overshooting the original 8-percent target set for 1978 money stock growth, he added.

He also noted that "the gentleman's agreement" under which West German banks will provide the federal banking supervisory office with more comprehensive information about their foreign subsidiaries will come into effect on Sept. 30.

He said the banks have agreed voluntarily and under a guarantee of banking secrecy to supply additional data about the activities of these subsidiaries, in Luxembourg and elsewhere, in the form of audited annual reports.

Banking sources said Bonn has been particularly concerned about the growth of the Luxembourg subsidiaries, as they lie outside the control of German banking regulations, yet account for some 14 percent of the balance-sheet total of German parent banks.

He said he is more optimistic about international growth prospects than he was at the last IMF annual gathering, for although U.S. growth will be weaker, growth in European countries is developing positively.

Eastern Gets European Loan For Airbuses

FRANKFURT, Sept. 22 (AP-DJ) — Dresdner Bank said today that a German-French bank consortium had granted Eastern Air Lines a 10-year, \$250-million credit to finance the purchase of a large part of the 23 Airbus 300s that Eastern has ordered.

The credit was granted by Dresdner and the Kreditanstalt für Wiederaufbau together with a French consortium under the leadership of Credit Lyonnais.

A spokesman for Dresdner Bank declined to elaborate on the terms of the \$250-million credit. The deliveries of the planes to Eastern will be from 1979 to 1983, the bank said.

Some experts — including leading figures at the German central bank — think that the large credits West Germany would be likely to make to weaker countries, as part of the EMS, would create a new inflationary impetus. But others (notably the British) worry that the arrangements do not contravene IMF rules and that if European currencies float together against the dollar, the intervention that may be necessary does not weaken the dollar.

On specific issues or problems, these developments are among those expected to take place during the week:

• Saudi Arabia will get its own seat on an expanded 21-member IMF executive board, a status to which it is entitled by virtue of having passed West Germany as the second largest provider of funds to

FRANKFURT, Sept. 22 (AP-DJ) — The West German widely defined money supply, M-3, continued to climb in August, rising by a seasonally adjusted 8.2 billion Deutsche marks after a jump of 9.3 billion DM in July and compared with August 1977's 3-billion-DM increase, the Bundesbank said.

In the six months ended August, M-3 increased at an annual rate of 10.7 percent. The Bundesbank's target for average money supply growth of 8 percent for the year.

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Performance of the stock in the Next 168 Months and (16) the Performance of the stock in the Next 180 Months and (17) the Performance of the stock in the Next 192 Months and (18) the Performance of the stock in the Next 204 Months and (19) the Performance of the stock in the Next 216 Months and (20) the Performance of the stock in the Next 228 Months and (21) the Performance of the stock in the Next 240 Months and (22) the Performance of the stock in the Next 252 Months and (23) the Performance of the stock in the Next 264 Months and (24) the Performance of the stock in the Next 276 Months and (25) the Performance of the stock in the Next 288 Months and (26) the Performance of the stock in the Next 300 Months and (27) the Performance of the stock in the Next 312 Months and (28) the Performance of the stock in the Next 324 Months and (29) the Performance of the stock in the Next 336 Months and (30) the Performance of the stock in the Next 348 Months and (31) the Performance of the stock in the Next 360 Months and (32) the Performance of the stock in the Next 372 Months and (33) the Performance of the stock in the Next 384 Months and (34) the Performance of the stock in the Next 396 Months and (35) the Performance of the stock in the Next 408 Months and (36) the Performance of the stock in the Next 420 Months and (37) the Performance of the stock in the Next 432 Months and (38) the Performance of the stock in the Next 444 Months and (39) the Performance of the stock in the Next 456 Months and (40) the Performance of the stock in the Next 468 Months and (41) the Performance of the stock in the Next 480 Months and (42) the Performance of the stock in the Next 492 Months and (43) the Performance of the stock in the Next 504 Months and (44) the Performance of the stock in the Next 516 Months and (45) the Performance of the stock in the Next 528 Months and (46) the Performance of the stock in the Next 540 Months and (47) the Performance of the stock in the Next 552 Months and (48) the Performance of the stock in the Next 564 Months and (49) the Performance of the stock in the Next 576 Months and (50) the Performance of the stock in the Next 588 Months and (51) the Performance of the stock in the Next 600 Months and (52) the Performance of the stock in the Next 612 Months and (53) the Performance of the stock in the Next 624 Months and (54) the Performance of the stock in the Next 636 Months and (55) the Performance of the stock in the Next 648 Months and (56) the Performance of the stock in the Next 660 Months and (57) the Performance of the stock in the Next 672 Months and (58) the Performance of the stock in the Next 684 Months and (59) the Performance of the stock in the Next 696 Months and (60) the Performance of the stock in the Next 708 Months and (61) the Performance of the stock in the Next 720 Months and (62) the Performance of the stock in the Next 732 Months and (63) the Performance of the stock in the Next 744 Months and (64) the Performance of the stock in the Next 756 Months and (65) the Performance of the stock in the Next 768 Months and (66) the Performance of the stock in the Next 780 Months and (67) the Performance of the stock in the Next 792 Months and (68) the Performance of the stock in the Next 804 Months and (69) the Performance of the stock in the Next 816 Months and (70) the Performance of the stock in the Next 828 Months and (71) the Performance of the stock in the Next 840 Months and (72) the Performance of the stock in the Next 852 Months and (73) the Performance of the stock in the Next 864 Months and (74) the Performance of the stock in the Next 876 Months and (75) the Performance of the stock in the Next 888 Months and (76) the Performance of the stock in the Next 900 Months and (77) the Performance of the stock in the Next 912 Months and (78) the Performance of the stock in the Next 924 Months and (79) the Performance of the stock in the Next 936 Months and (80) the Performance of the stock in the Next 948 Months and (81) the Performance of the stock in the Next 960 Months and (82) the Performance of the stock in the Next 972 Months and (83) the Performance of the stock in the Next 984 Months and (84) the Performance of the stock in the Next 996 Months and (85) the Performance of the stock in the Next 1008 Months and (86) the Performance of the stock in the Next 1020 Months and (87) the Performance of the stock in the Next 1032 Months and (88) the Performance of the stock in the Next 1044 Months and (89) the Performance of the stock in the Next 1056 Months and (90) the Performance of the stock in the Next 1068 Months and (91) the Performance of the stock in the Next 1080 Months and (92) the Performance of the stock in the Next 1092 Months and (93) the Performance of the stock in the Next 1104 Months and (94) the Performance of the stock in the Next 1116 Months and (95) the Performance of the stock in the Next 1128 Months and (96) the Performance of the stock in the Next 1140 Months and (97) the Performance of the stock in the Next 1152 Months and (98) the Performance of the stock in the Next 1164 Months and (99) the Performance of the stock in the Next 1176 Months and (100) the Performance of the stock in the Next 1188 Months and (101) the Performance of the stock in the Next 1200 Months and (102) the Performance of the stock in the Next 1212 Months and (103) the Performance of the stock in the Next 1224 Months and (104) the Performance of the stock in the Next 1236 Months and (105) the Performance of the stock in the Next 1248 Months and (106) the Performance of the stock in the Next 1260 Months and (107) the Performance of the stock in the Next 1272 Months and (108) the Performance of the stock in the Next 1284 Months and (109) the Performance of the stock in the Next 1296 Months and (110) the Performance of the stock in the Next 1308 Months and (111) the Performance of the stock in the Next 1320 Months and (112) the Performance of the stock in the Next 1332 Months and (113) the Performance of the stock in the Next 1344 Months and (114) the Performance of the stock in the Next 1356 Months and (115) the Performance of the stock in the Next 1368 Months and (116) the Performance of the stock in the Next 1380 Months and (117) the Performance of the stock in the Next 1392 Months and (118) the Performance of the stock in the Next 1404 Months and (119) the Performance of the stock in the Next 1416 Months and (120) the Performance of the stock in the Next 1428 Months and (121) the Performance of the stock in the Next 1440 Months and (122) the Performance of the stock in the Next 1452 Months and (123) the Performance of the stock in the Next 1464 Months and (124) the Performance of the stock in the Next 1476 Months and (125) the Performance of the stock in the Next 1488 Months and (126) the Performance of the stock in the Next 1500 Months and (127) the Performance of the stock in the Next 1512 Months and (128) the Performance of the stock in the Next 1524 Months and (129) the Performance of the stock in the Next 1536 Months and (130) the Performance of the stock in the Next 1548 Months and (131) the Performance of the stock in the Next 1560 Months and (132) the Performance of the stock in the Next 1572 Months and (133) the Performance of the stock in the Next 1584 Months and (134) the Performance of the stock in the Next 1596 Months and (135) the Performance of the stock in the Next 1608 Months and (136) the Performance of the stock in the Next 1620 Months and (137) the Performance of the stock in the Next 1632 Months and (138) the Performance of the stock in the Next 1644 Months and (139) the Performance of the stock in the Next 1656 Months and (140) the Performance of the stock in the Next 1668 Months and (141) the Performance of the stock in the Next 1680 Months and (142) the Performance of the stock in the Next 1692 Months and (143) the Performance of the stock in the Next 1704 Months and (144) the Performance of the stock in the Next 1716 Months and (145) the Performance of the stock in the Next 1728 Months and (146) the Performance of the stock in the Next 1740 Months and (147) the Performance of the stock in the Next 1752 Months and (148) the Performance of the stock in the Next 1764 Months and (149) the Performance of the stock in the Next 1776 Months and (150) the Performance of the stock in the Next 1788 Months and (151) the Performance of the stock in the Next 1800 Months and (152) the Performance of the stock in the Next 1812 Months and (153) the Performance of the stock in the Next 1824 Months and (154) the Performance of the stock in the Next 1836 Months and (155) the Performance of the stock in the Next 1848 Months and (156) the Performance of the stock in the Next 1860 Months and (157) the Performance of the stock in the Next 1872 Months and (158) the Performance of the stock in the Next 1884 Months and (159) the Performance of the stock in the Next 1896 Months and (160) the Performance of the stock in the Next 1908 Months and (161) the Performance of the stock in the Next 1920 Months and (162) the Performance of the stock in the Next 1932 Months and (163) the Performance of the stock in the Next 1944 Months and (164) the Performance of the stock in the Next 1956 Months and (165) the Performance of the stock in the Next 1968 Months and (166) the Performance of the stock in the Next 1980 Months and (167) the Performance of the stock in the Next 1992 Months and (168) the Performance of the stock in the Next 2004 Months and (169) the Performance of the stock in the Next 2016 Months and (170) the Performance of the stock in the Next 2028 Months and (171) the Performance of the stock in the Next 2040 Months and (172) the Performance of the stock in the Next 2052 Months and (173) the Performance of the stock in the Next 2064 Months and (174) the Performance of the stock in the Next 2076 Months and (175) the Performance of the stock in the Next 2088 Months and (176) the Performance of the stock in the Next 2100 Months and (177) the Performance of the stock in the Next 2112 Months and (178) the Performance of the stock in the Next 2124 Months and (179) the Performance of the stock in the Next 2136 Months and (180) the Performance of the stock in the Next 2148 Months and (181) the Performance of the stock in the Next 2160 Months and (182) the Performance of the stock in the Next 2172 Months and (183) the Performance of the stock in the Next 2184 Months and (184) the Performance of the stock in the Next 2196 Months and (185) the Performance of the stock in the Next 2208 Months and (186) the Performance of the stock in the Next 2220 Months and (187) the Performance of the stock in the Next 2232 Months and (188) the Performance of the stock in the Next 2244 Months and (189) the Performance of the stock in the Next 2256 Months and (190) the Performance of the stock in the Next 2268 Months and (191) the Performance of the stock in the Next 2280 Months and (192) the Performance of the stock in the Next 2292 Months and (193) the Performance of the stock in the Next 2304 Months and (194) the Performance of the stock in the Next 2316 Months and (195) the Performance of the stock in the Next 2328 Months and (196) the Performance of the stock in the Next 2340 Months and (197) the Performance of the stock in the Next 2352 Months and (198) the Performance of the stock in the Next 2364 Months and (199) the Performance of the stock in the Next 2376 Months and (200) the Performance of the stock in the Next 2388 Months and (201) the Performance of the stock in the Next 2400 Months and (202) the Performance of the stock in the Next 2412 Months and (203) the Performance of the stock in the Next 2424 Months and (204) the Performance of the stock in the Next 2436 Months and (205) the Performance of the stock in the Next 2448 Months and (206) the Performance of the stock in the Next 2460 Months and (207) the Performance of the stock in the Next 2472 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**NEW YORK, September 22**  
Cash prices in primary markets as registered today in New York were:

Commodity and unit	1st Year Ago	2nd Year Ago
<b>COFFEES</b>		
Arabica No. 1	1.50	2.30
Robusta No. 1	1.50	2.30
<b>TEA</b>		
Orthodox 44-50 25% Wt.	0.44	0.44
<b>GRAIN</b>		
Wheat (No. 1) 100 lbs.	2.00	2.00
Barley 100 lbs.	1.00	1.00
Oats 100 lbs.	0.50	0.50
<b>MEATS</b>		
Beef (No. 1) 100 lbs.	1.00	1.00
Pork (No. 1) 100 lbs.	0.50	0.50
Chicken (No. 1) 100 lbs.	0.50	0.50
<b>COMMODITY INDEX</b>		
Moody's Index (Base 100 Dec. 31, 1969)	1,000.00	1,000.00
S&P 500 Index (Base 100 Dec. 31, 1969)	1,000.00	1,000.00

## U.S. Commodity Prices

Commodity	Unit	Price	Change
COFFEE	100 lbs.	1.50	+0.05
TEA	100 lbs.	0.44	0.00
WHEAT	100 lbs.	2.00	+0.05
BARLEY	100 lbs.	1.00	+0.05
OATS	100 lbs.	0.50	+0.05
BEEF	100 lbs.	1.00	+0.05
PORK	100 lbs.	0.50	+0.05
CHICKEN	100 lbs.	0.50	+0.05

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PORK	100 lbs.	0.50	+0.05
CHICKEN	100 lbs.	0.50	+0.05

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COFFEE	100 lbs.	1.50	+0.05
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OATS	100 lbs.	0.50	+0.05
BEEF	100 lbs.	1.00	+0.05
PORK	100 lbs.	0.50	+0.05
CHICKEN	100 lbs.	0.50	+0.05

## European Markets

Commodity	Unit	Price	Change
COFFEE	100 lbs.	1.50	+0.05
TEA	100 lbs.	0.44	0.00
WHEAT	100 lbs.	2.00	+0.05
BARLEY	100 lbs.	1.00	+0.05
OATS	100 lbs.	0.50	+0.05
BEEF	100 lbs.	1.00	+0.05
PORK	100 lbs.	0.50	+0.05
CHICKEN	100 lbs.	0.50	+0.05

## Market Summary

Commodity	Unit	Price	Change
COFFEE	100 lbs.	1.50	+0.05
TEA	100 lbs.	0.44	0.00
WHEAT	100 lbs.	2.00	+0.05
BARLEY	100 lbs.	1.00	+0.05
OATS	100 lbs.	0.50	+0.05
BEEF	100 lbs.	1.00	+0.05
PORK	100 lbs.	0.50	+0.05
CHICKEN	100 lbs.	0.50	+0.05

## Down Jones Averages

Index	Value	Change
Dow Jones Industrial Average	1,000.00	+0.05
Dow Jones Transportation Average	1,000.00	+0.05
Dow Jones Utility Average	1,000.00	+0.05

## Standard & Poor's

Index	Value	Change
Standard & Poor's 500	1,000.00	+0.05

## NYSE Index

Index	Value	Change
NYSE Composite	1,000.00	+0.05

## Odd-Lot Trading in N.Y.

Commodity	Unit	Price	Change
COFFEE	100 lbs.	1.50	+0.05
TEA	100 lbs.	0.44	0.00
WHEAT	100 lbs.	2.00	+0.05
BARLEY	100 lbs.	1.00	+0.05
OATS	100 lbs.	0.50	+0.05
BEEF	100 lbs.	1.00	+0.05
PORK	100 lbs.	0.50	+0.05
CHICKEN	100 lbs.	0.50	+0.05

## American Most Active

Commodity	Unit	Price	Change
COFFEE	100 lbs.	1.50	+0.05
TEA	100 lbs.	0.44	0.00
WHEAT	100 lbs.	2.00	+0.05
BARLEY	100 lbs.	1.00	+0.05
OATS	100 lbs.	0.50	+0.05
BEEF	100 lbs.	1.00	+0.05
PORK	100 lbs.	0.50	+0.05
CHICKEN	100 lbs.	0.50	+0.05

## Selected Over-the-Counter

Commodity	Unit	Price	Change
COFFEE	100 lbs.	1.50	+0.05
TEA	100 lbs.	0.44	0.00
WHEAT	100 lbs.	2.00	+0.05
BARLEY	100 lbs.	1.00	+0.05
OATS	100 lbs.	0.50	+0.05
BEEF	100 lbs.	1.00	+0.05
PORK	100 lbs.	0.50	+0.05
CHICKEN	100 lbs.	0.50	+0.05

## NEW YORK (AP)—

The following table shows the closing prices of the most actively traded foreign exchange rates in New York on September 22, 1978.

Commodity	Unit	Price	Change
COFFEE	100 lbs.	1.50	+0.05
TEA	100 lbs.	0.44	0.00
WHEAT	100 lbs.	2.00	+0.05
BARLEY	100 lbs.	1.00	+0.05
OATS	100 lbs.	0.50	+0.05
BEEF	100 lbs.	1.00	+0.05
PORK	100 lbs.	0.50	+0.05
CHICKEN	100 lbs.	0.50	+0.05

## Friday's New Highs and Lows

Commodity	Unit	Price	Change
COFFEE	100 lbs.	1.50	+0.05
TEA	100 lbs.	0.44	0.00
WHEAT	100 lbs.	2.00	+0.05
BARLEY	100 lbs.	1.00	+0.05
OATS	100 lbs.	0.50	+0.05
BEEF	100 lbs.	1.00	+0.05
PORK	100 lbs.	0.50	+0.05
CHICKEN	100 lbs.	0.50	+0.05

## NEW HIGH—12

Commodity	Unit	Price	Change
COFFEE	100 lbs.	1.50	+0.05
TEA	100 lbs.	0.44	0.00
WHEAT	100 lbs.	2.00	+0.05
BARLEY	100 lbs.	1.00	+0.05
OATS	100 lbs.	0.50	+0.05
BEEF	100 lbs.	1.00	+0.05
PORK	100 lbs.	0.50	+0.05
CHICKEN	100 lbs.	0.50	+0.05

## NEW LOWS—12

Commodity	Unit	Price	Change
COFFEE	100 lbs.	1.50	+0.05
TEA	100 lbs.	0.44	0.00
WHEAT	100 lbs.	2.00	+0.05
BARLEY	100 lbs.	1.00	+0.05
OATS	100 lbs.	0.50	+0.05
BEEF	100 lbs.	1.00	+0.05
PORK	100 lbs.	0.50	+0.05
CHICKEN	100 lbs.	0.50	+0.05

## PARIS Bourse Probes Steel-Share Dealings

PARIS, Sept. 22 (AP)—The Paris Bourse Commission said it is investigating alleged irregular dealings in French steel shares prior to Wednesday's announcement of the latest government rescue plan.

Unconfirmed reports circulating at the Bourse said that some big shareholders and institutional investors had prior "inside information" of the government's plan.

## NYSE Nationwide Trading Closing Prices Sept. 22

Commodity	Unit	Price	Change
COFFEE	100 lbs.	1.50	+0.05
TEA	100 lbs.	0.44	0.00
WHEAT	100 lbs.	2.00	+0.05
BARLEY	100 lbs.	1.00	+0.05
OATS	100 lbs.	0.50	+0.05
BEEF	100 lbs.	1.00	+0.05
PORK	100 lbs.	0.50	+0.05
CHICKEN	100 lbs.	0.50	+0.05

## Continued from Page 8

Commodity	Unit	Price	Change
COFFEE	100 lbs.	1.50	+0.05
TEA	100 lbs.	0.44	0.00
WHEAT	100 lbs.	2.00	+0.05
BARLEY	100 lbs.	1.00	+0.05
OATS	100 lbs.	0.50	+0.05
BEEF	100 lbs.	1.00	+0.05
PORK	100 lbs.	0.50	+0.05
CHICKEN	100 lbs.	0.50	+0.05

## IMM Futures

Commodity	Unit	Price	Change
COFFEE	100 lbs.	1.50	+0.05
TEA	100 lbs.	0.44	0.00
WHEAT	100 lbs.	2.00	+0.05
BARLEY	100 lbs.	1.00	+0.05
OATS	100 lbs.	0.50	+0.05
BEEF	100 lbs.	1.00	+0.05
PORK	100 lbs.	0.50	+0.05
CHICKEN	100 lbs.	0.50	+0.05

## London Metals Market

Commodity	Unit	Price	Change
COFFEE	100 lbs.	1.50	+0.05
TEA	100 lbs.	0.44	0.00
WHEAT	100 lbs.	2.00	+0.05
BARLEY	100 lbs.	1.00	+0.05
OATS	100 lbs.	0.50	+0.05
BEEF	100 lbs.	1.00	+0.05
PORK	100 lbs.	0.50	+0.05
CHICKEN	100 lbs.	0.50	+0.05

## London Commodities

Commodity	Unit	Price	Change
COFFEE	100 lbs.	1.50	+0.05
TEA	100 lbs.	0.44	0.00
WHEAT	100 lbs.	2.00	+0.05
BARLEY	100 lbs.	1.00	+0.05
OATS	100 lbs.	0.50	+0.05
BEEF	100 lbs.	1.00	+0.05
PORK	100 lbs.	0.50	+0.05
CHICKEN	100 lbs.	0.50	+0.05

## Paris Commodities

Commodity	Unit	Price	Change
COFFEE	100 lbs.	1.50	+0.05
TEA	100 lbs.	0.44	0.00
WHEAT	100 lbs.	2.00	+0.05
BARLEY	100 lbs.	1.00	+0.05
OATS	100 lbs.	0.50	+0.05
BEEF	100 lbs.	1.00	+0.05
PORK	100 lbs.	0.50	+0.05
CHICKEN	100 lbs.	0.50	+0.05

## European Gold Markets

Commodity	Unit	Price	Change
COFFEE	100 lbs.	1.50	+0.05
TEA	100 lbs.	0.44	0.00
WHEAT	100 lbs.	2.00	+0.05
BARLEY	100 lbs.	1.00	+0.05
OATS	100 lbs.	0.50	+0.05
BEEF	100 lbs.	1.00	+0.05
PORK	100 lbs.	0.50	+0.05
CHICKEN	100 lbs.	0.50	+0.05

## International Bonds Traded in Europe

Commodity	Unit	Price	Change
COFFEE	100 lbs.	1.50	+0.05
TEA	100 lbs.	0.44	0.00
WHEAT	100 lbs.	2.00	+0.05
BARLEY	100 lbs.	1.00	+0.05
OATS	100 lbs.	0.50	+0.05
BEEF	100 lbs.	1.00	+0.05
PORK	100 lbs.	0.50	+0.05
CHICKEN	100 lbs.	0.50	+0.05

## Midday Indicated Prices

Commodity	Unit	Price	Change
COFFEE	100 lbs.	1.50	+0.05
TEA	100 lbs.	0.44	0.00
WHEAT	100 lbs.	2.00	+0.05
BARLEY	100 lbs.	1.00	+0.05
OATS	100 lbs.	0.50	+0.05
BEEF	100 lbs.	1.00	+0.05
PORK	100 lbs.	0.50	+0.05
CHICKEN	100 lbs.	0.50	+0.05

## Convertible Bonds

19% Shor	1.22	8.6	8	25%	18%	19%	W	25	18%	19%	W
12% Shor	1.22	8.6	8	25%	18%	19%	W	25	18%	19%	W
26% Shor	1.36	2.6	5	34	5	52	W	25	18%	19%	W
30% Shor	1.36	2.6	5	34	5	52	W	25	18%	19%	W
5% Shor	1.36	2.6	5	34	5	52	W	25	18%	19%	W
5% Shor	1.36	2.6	5	34	5	52	W	25	18%	19%	W
5% Shor	1.36	2.6	5	34	5	52	W	25	18%	19%	W
5% Shor	1.36	2.6	5	34	5	52	W	25	18%	19%	W
5% Shor	1.36	2.6	5	34	5	52	W	25	18%	19%	W
5% Shor	1.36	2.6	5	34	5	52	W	25	18%	19%	W
5% Shor	1.36	2.6	5	34	5	52	W	25	18%	19%	W
5% Shor	1.36	2.6	5	34	5	52	W	25	18%	19%	W
5% Shor	1.36	2.6	5	34	5	52	W	25	18%	19%	W
5% Shor	1.36	2.6	5	34	5	52	W	25	18%	19%	W
5% Shor	1.36	2.6	5	34	5	52	W	25	18%	19%	W
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73b	74b	+	$\frac{1}{4}$
91a	91a	-	$\frac{1}{8}$
144b	144b	-	$\frac{1}{4}$
7	7	+	$\frac{1}{8}$
262a	262a		

1920 Croalini	415	410	415	+10
1960 Crust Int'l	147%	146%	141%	+4
4840 Cyprus	89%	84	84	
10000 Daan Dev	128%	128	128	
1000 Daan A	87%	74	74	-14

**(Continued from Back Page)**

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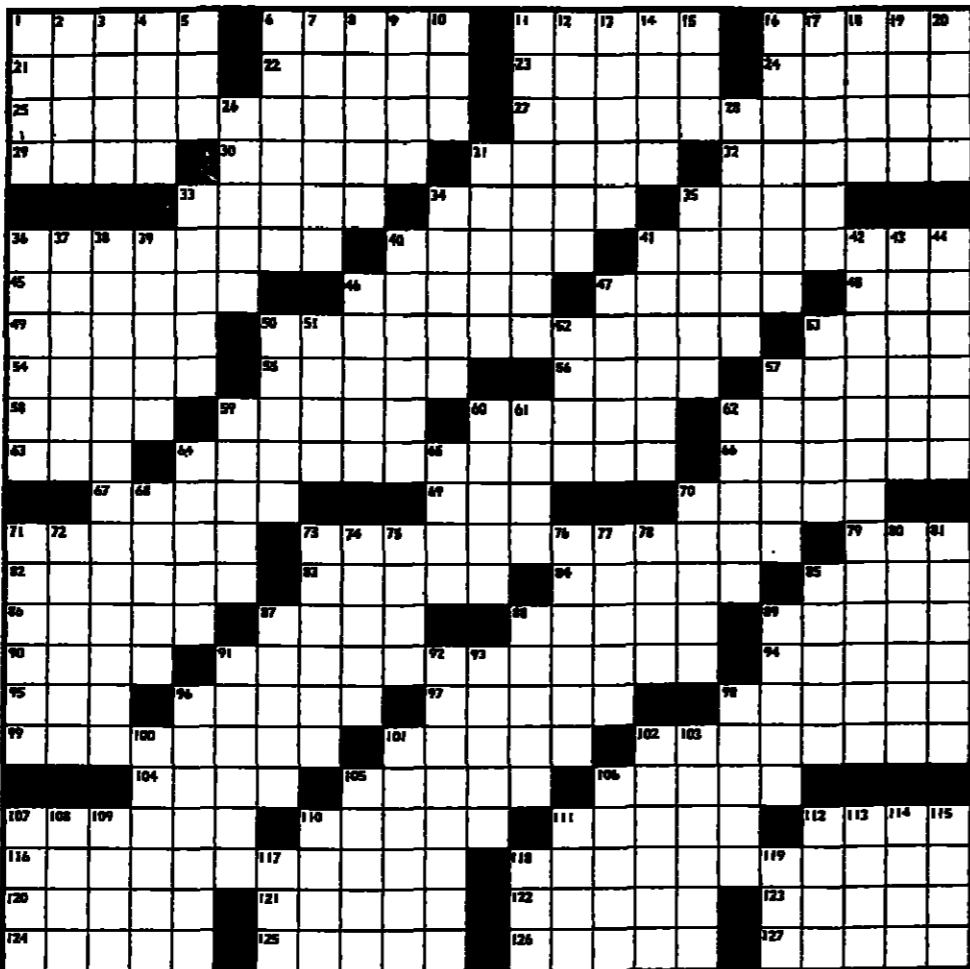
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# CROSSWORD PUZZLE

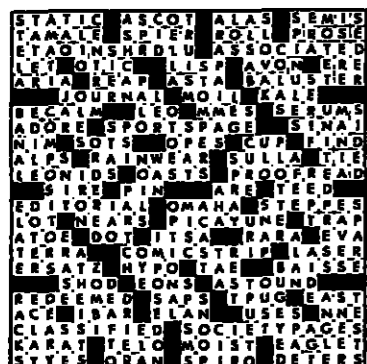
Edited by  
EUGENE T. MALESKA

Only Human By Marian Pearce



- |                  |                  |                   |                   |                        |
|------------------|------------------|-------------------|-------------------|------------------------|
| <b>ACROSS</b>    | <b>DOWN</b>      | <b>DOWN</b>       | <b>DOWN</b>       | <b>DOWN</b>            |
| 1 Bank features  | 20 Bosc          | 50 Pentateuch     | 76 Like the       | 101 Seal               |
| 6 Fills          | 26 Soviet river  | 51 Gideon's vic-  | 77 Greek tourist  | 102 Summer             |
| 11 Deceived      | 28 Kind of agent | 52 Grace à        | 80 Broadway       | 103 Singing gymnastics |
| 16 Sometime      | 31 Band man      | 53 Twisted fabric | 81 Laundry        | 105 Sky Whale          |
| 21 Follow        | 33 Thing often   | 54 Dubliner's     | 82 Bookkeeper's   | 106 Writer             |
| 22 Pick up the   | 34 Thomas and    | 55 Brightness     | 83 Squalid        | 107 Scoria             |
| 23 Hole          | 35 Outhouses in  | 56 Protozoan:     | 84 Lie in hiding  | 108 Elder: Fr.         |
| 24 Stage         | 36 "Two Years    | 57 French         | 85 More           | 109 Spots, for one     |
| 25 Pastoral dis- | 37 Evoke         | 58 Highway        | 86 Strips         | 110 True, in           |
| 27 Inlet         | 38 Old pronouns  | 59 Take turns     | 87 Scant          | 111 Grimace            |
| 29 Postwar pact  | 39 Son of Seth   | 40 Scarcity       | 88 Reptile to the | 112 Dam                |
| 30 Viewpoint     | 41 Case          | 42 Place for      | 89 German num-    | 113 Height             |
| 31 Hari et al.   | 42 Milieu        | 43 Worker         | 90 Axis           | 114 Burlesque          |
| 32 Farm          | 43 Two-times     | 44 With skill     | 91 Rhine fea-     | 115 Whispering         |
| 33 Fretful       | 44 Grate upon    | 45 After-theater  | 92 Scythe         | 117 Continent:         |
| 34 Relatives of  | 45 Response to   | 46 Concerning     | 93 Hilarious in   | 118 Candy shape        |
| 35 Chicago land- | 46 "Get it?"     |                   | 94 Name giver     | 119 Initials of the    |
| 36 Dominate      |                  |                   |                   | 120 Vietnam war        |
| 37 Conserve in a |                  |                   |                   | 121 days               |
| 38 way           |                  |                   |                   |                        |
| 39 Dispossessed  |                  |                   |                   |                        |
| 40 Hebrew god    |                  |                   |                   |                        |
| 41 False         |                  |                   |                   |                        |
| 42 Mosquito      |                  |                   |                   |                        |
| 43 genus         |                  |                   |                   |                        |
| 44 Scottish name |                  |                   |                   |                        |
| 45 Band in-      |                  |                   |                   |                        |
| 46 Strenuously   |                  |                   |                   |                        |
| 47 Bondman       |                  |                   |                   |                        |
| 48 Musical       |                  |                   |                   |                        |
| 49 Whales        |                  |                   |                   |                        |
| 50 Comparative   |                  |                   |                   |                        |
| 51 ending        |                  |                   |                   |                        |
| 52 Relied: Var.  |                  |                   |                   |                        |
| 53 Glaciation    |                  |                   |                   |                        |
| 54 stage         |                  |                   |                   |                        |
| 55 Gatsby, for   |                  |                   |                   |                        |
| 56 one           |                  |                   |                   |                        |
| 57arkin          |                  |                   |                   |                        |
| 58 Pit           |                  |                   |                   |                        |
| 59 Numerical     |                  |                   |                   |                        |
| 60 suffix        |                  |                   |                   |                        |
| 61 Sieve         |                  |                   |                   |                        |
| 62 Divination    |                  |                   |                   |                        |
| 63 West Indian   |                  |                   |                   |                        |
| 64 sorcery       |                  |                   |                   |                        |
| 65 of the land   |                  |                   |                   |                        |
| 66               |                  |                   |                   |                        |
| 67               |                  |                   |                   |                        |
| 68               |                  |                   |                   |                        |
| 69               |                  |                   |                   |                        |

Solution to Last Week's Puzzle



## WEATHER

ALGARVE	23	F	Cloudy
AMSTERDAM	18	F	Misty
ANAKAP	22	F	Cloudy
ATHENS	18	F	Overcast
BEIRUT	27	F	Misty
BELGRADE	16	F	Overcast
BELIN	14	F	Misty
BREITENBURG	14	F	Misty
BUCHAREST	17	F	Cloudy
BUDAPEST	17	F	Cloudy
CASABLANCA	24	F	Overcast
COPIENHAGEN	11	F	Rain
COSTA DEL SOL	26	F	Cloudy
DUBLIN	17	F	Misty
EDINBURGH	18	F	Cloudy
FLORENCE	23	F	Misty
FRANKFURT	17	F	Misty
GENEVA	17	F	Misty
HELSINKI	9	F	Overcast
ISTANBUL	14	F	Misty
LAS PALMAS	24	F	Cloudy
LISBON	26	F	Misty
LONDON	21	F	Overcast
LOS ANGELES	20	F	Fair

(Yesterday's readings U.S. and Canada at 1700 GMT; all others at 1200 GMT.)

## BOOKS

**PAIN AND PROFIT**  
*The Politics of Malpractice*  
By Sylvia Law and Steven Polan. Harper & Row. 305 pp. \$12.95.  
**DEFECTIVE MEDICINE**  
*Risk, Anger and the Malpractice Crisis*  
By Louise Lander. Farrar, Straus & Giroux. 242 pp. \$10.  
Reviewed by Fitzhugh Mullan

STARTING in the early years of this decade, three great mastodons of American life—the insurance industry, the law industry, and the medicine industry—locked horns over the subject of medical malpractice. The resultant fracas left many Americans bruised and most of us bewildered. Were doctors really more incompetent than they had been in the past? Or had lawyers become more avaricious and cunning in their pursuit of damage claims?

Whatever the answers, the crisis was real enough. Ninety percent of all malpractice claims in the history of American medicine have been filed since 1965. Between the years 1974-1977 the frequency of malpractice claims increased by 60 percent. During the same period, medical malpractice premiums rose 400 percent in price. Many insurance companies have since abandoned the field and numerous doctors are "going bare"—practicing without any insurance coverage.

The Lander book takes one of the mastodons, American medicine, and dissects it carefully. Her examination is thorough and telling. The problem as she sees it has little to do with the simple question of competence in the profession. Rather, the massive dissatisfaction with American medicine that is reflected in the increased frequency of litigation against doctors is a product of a calling gone awry, a social function that has, in large part, lost touch with society.

She writes provocatively about the origins of modern medicine and the triumph of the "biomedical model." The germ theory, she posits, is the essence of the biomedical model. Clinical technology falls all over itself trying to obliterate the germ and in the process forgets about the human being.

Thus today's patient enters the maze of modern medicine stoked with the propaganda of technology and expects that everything is possible. Given this mind-set, the results are often disappointing and the court of law becomes the means of expressing frustration, disappointment, and anger. "Medical practitioners and organizations then express surprise and outrage that people are ungrateful for the marvels that scientific medicine has brought them and that instead of passively resigning themselves to the risk these marvels invariably entail, they are increasingly suing their doctors when the risk becomes injury."

Lander expands her commentary on the medical scene in a chapter reminiscent of Ivan Illich called "The Commodification of Healing." Contemporary medicine with its panoply of specialists puts emphasis on gadgetry and medications. The intimacy and continuity that characterized the doctor and pa-

tient relationship in the time when there was less mobility, less technology, and fewer expectations is greatly reduced today. In the current epoch "health becomes a thing rather than a way of living, and the doctor becomes a purveyor (and the patient a consumer) of things—pills and procedures—rather than a participant in a way of relating." The result should not be surprising. Consumers have different expectations of commodities than they do of other human beings. Their form of redress when they are dissatisfied is likewise different.

"Defective Medicine" spends relatively little time talking about the actual malpractice crisis but moves quickly to the question of reform. Like Illich, Lander's criticisms are far more crisp than her solutions. She feels that none of the official responses from the insurance industry, medicine, or law offer any hope as long-term solutions. Like wise, medical consumerism and medical self-care (informal and strong movements in certain sectors of society) do little to confront the biomedical model or the essentially alienating commodification of health. One is left to assume that the real cure lies in a major overhaul of our notions of sickness and health rather than any superficial measures dealing with the malpractice situation itself. That is an interesting concept but one that cries out for definition.

"Pain and Profit: The Politics of Malpractice" is a more concrete book. Its authors, Sylvia Law and Steven Polan, are lawyers with experience in the health policy field. Their approach is less rhetorical, focusing on the facts and figures of malpractice, litigation, and insurance. While they are not gentle with any of the professions concerned, their best and strongest expository writing concerns malpractice insurance. They make the intricacies of what they call "the blood-money industry" understandable. Their conclusions, however, are on the anemic side. More explicit public control of medicine, law, and insurance, they suggest, would minimize malpractice and make the forms of redress more equitable and more accessible. That is helpful but hardly conclusive.

Malpractice remains with us. Its analysts take some roundhouse swings at the people and professions involved in it. Of themselves, these criticisms are healthy challenges to the professions. Whether or not they succeed in helping the average patient deal with the risk of injury and injury itself remains to be seen.

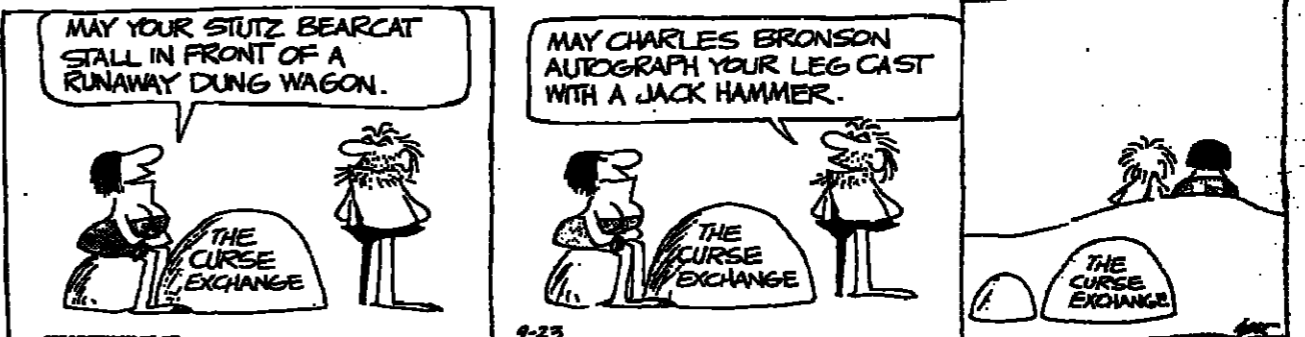
Dr. Fitzhugh Mullan, the director of the National Health Service Corps, is the author of "White Coat, Clevered Fist."

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PEANUTS



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A Special Report

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**Herald Tribune**  
Published with The New York Times and The Washington Post

PARIS, SEPTEMBER, 1978

# Focus on Hong Kong

## Changing Roles in the East and West



### Economy

#### Broader Mix of Industries Key to Future Prosperity

HONG KONG (IHT) — This colony has an irritating way of outperforming the best estimates of government economists and businessmen — and it is happening again.

This year started with discordant notes in the economic rhythm. An awful impact was expected from a protectionist textile agreement warring out of the colony by the European Economic Community, a pact that severely limits Hong Kong's important garment and cloth exports for at least the next five years. The four stock exchanges were eerily quiet and the Hang Seng Index at 383 was depressingly low. Brokers were laying off employees and pondering whether they could afford to pay their office rent.

A slight lift came in March when the financial secretary, Philip Haddad-Cave, revealed the government would have a surplus of \$260.8 million rather than the slight deficit he had forecast. His budget called for nearly balanced books for the fiscal year ending March 31, 1979. He offered some tax relief, including ending the small but irritating stamp duty on share transactions, and added only a vaguely worded, loophole-closing tax on offshore banking.

#### Not Justified

As first company results surfaced in the spring, analysts suspected the New Year's pessimism was not justified. In May, the shares market reacted to bullish annual reports and better trade figures.

Suddenly in mid-May, the stock exchanges became frenzied. The Hang Seng Index went over 500 and continued to climb, passing 600 by early August. This reversal from a dismal low to a five-year high stunned brokers who had to dash around to rebuff laid-off employees.

Gold, too, began to zoom on the Chinese Gold & Silver Exchange, the uniquely oriental market that stubbornly insists on quoting prices in Chinese taels (1.2 ounces) rather than fine ounces. Hong Kong, now the third leg of a global 24-hour trading circuit, helped send gold over \$300 last month.

Mr. Haddad-Cave had modestly forecast domestic exports — the heart of the colony's economic life — to rise only 5 percent during the current fiscal year. Re-exports (normally about a fifth of total exports) might do a bit better, perhaps 8 percent. Imports would continue to rise by 6 percent. Such figures are

By Harold Ellithorpe

HONG KONG (IHT) — A European diplomat recently quipped that "Hong Kong is a Chinese colony, not a British colony." Even the government now prefers to ignore its colonial appellation and has ordered its information services to avoid the word "colony" in talking about Britain's last possession in the Far East. The designation of colonial secretary, second-ranking official to the governor, has been switched to chief secretary.

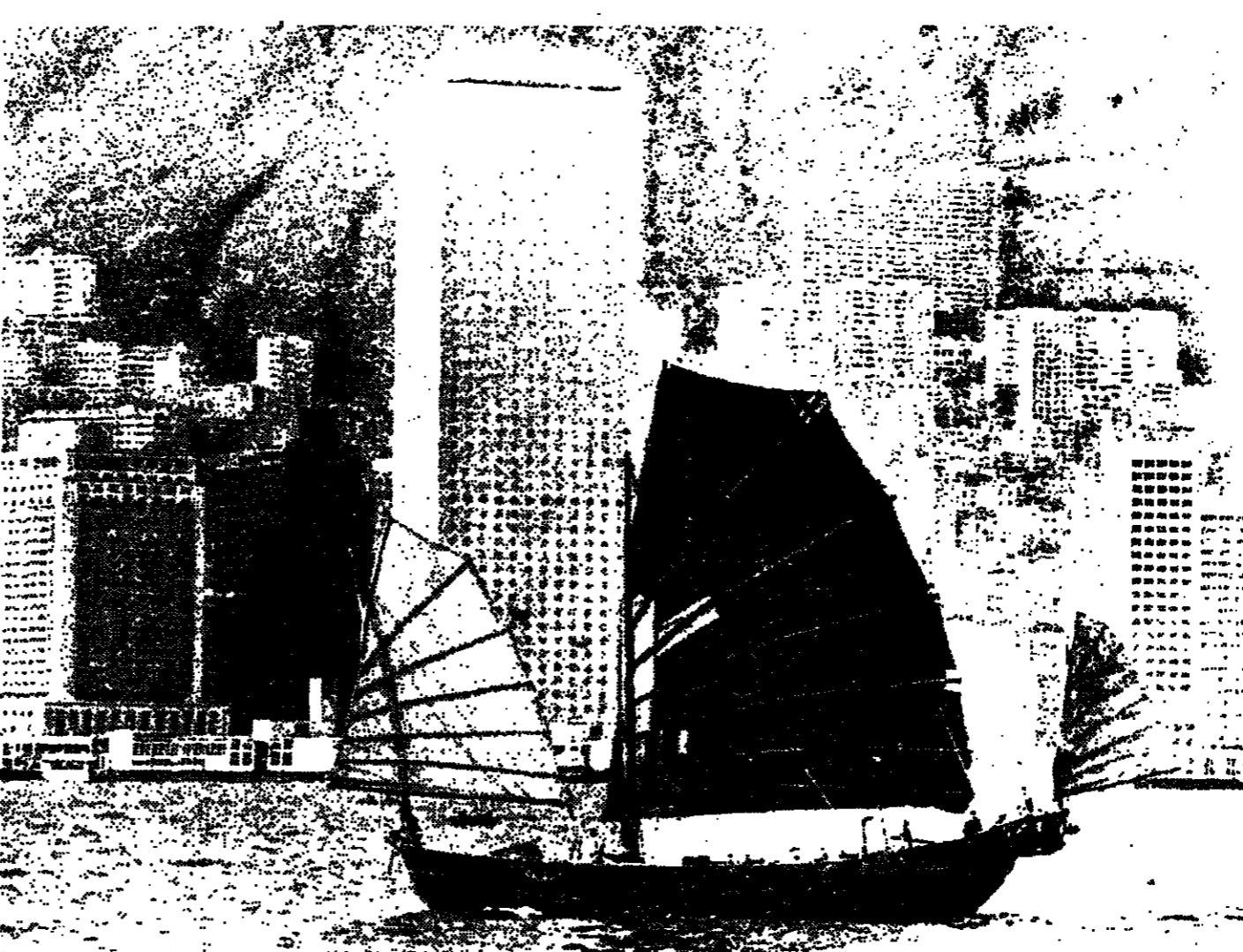
China — which here always means the People's Republic of China with the Nationalist regime simply called Taiwan — has its own way of looking at Hong Kong. Peking refers to it as "Chinese territory temporarily under the administration of the British."

Relations between the colony of 4.5 million people and its giant neighbor of 900 million "have never been more cordial," to quote at least a half dozen British officials who have made the observation this year. Hong Kong has come a long way since it appeared to be the battleground of global ideologies during the riots of 1967. The riots poured the excesses of Mao's cultural revolution into Hong Kong's streets. The Communist effort flopped miserably but convinced the British that they had better mind the store more carefully.

#### Realpolitik

The result was a phenomenal growth in realpolitik. Under Gov. Sir Murray MacLehose, appointed in 1971, the colony began to stand up to its enormous social responsibilities. Long-range plans were developed to make improvements in nearly every field: public housing, education, social welfare, anti-corruption, government reorganization, land expansion and industrialization.

When China entered the United Nations in 1972 and former President Richard Nixon established détente with Peking in his historic trip, the impact on Hong Kong was unexpected. Instead of cringing in fear that China might decide to end this anomalous refuge, the Chinese



Chinese junk passes high-rise skyline of Victoria on Hong Kong Island.

residents of Hong Kong swelled with pride that their motherland had rejoined the community of nations.

Although most of Hong Kong's Chinese are refugees from the motherland, they no longer felt it necessary to be patently anti-Peking while in Hong Kong. China discovered that this capitalist doorway could

be a distinct help in a new policy of détente even though it was a classic example of detestable laissez-faire capitalism.

A chance to prove its friendliness came in 1973 with the oil embargo. China shipped in boatloads of diesel fuel and other petroleum products. A water shortage the next year brought offers to increase supplies from the mainland. A new

kind of collaboration was in the making.

Britain no longer feels it is carrying the torch of empire nor the lamp of freedom by maintaining the colony. (Indeed, many British officials privately wonder why Hong Kong still remains in the imperial domain.) Peking has decided that Hong Kong is far more useful as a free port than it would

be inside the Communist fold. Both admit that China could end the situation "with a phone call."

So Sir Murray continues to rule by royal letters patent, aided by a 14-member Executive Council and a Legislative Council of 37 containing both official and unofficial members.

The impression that Peking is consulted is scrupulously shielded,

but an informal system of contacts has been erected. Over lunch, a British official may mention that such-and-such a policy is being considered. His Chinese guest or host will remark that the statement is interesting, but perhaps one should consider such-and-such sensitive points. The word has been passed, reactions noted and understanding reached.

Before the 1972 psychological changes, China's ambassador to London had once casually mentioned the prospect of appointing a Chinese official to the colony. The British diplomatically ignored the suggestion, a clear expression of displeasure at the very idea of a "second governor." It has not been broached again.

Last month, China made a significant move. It named a senior cadre as the chief of the Hsinhua News Agency office in Hong Kong. Wang Kwang obviously takes his orders direct from Peking and not, as his predecessors often did, from nearby Canton. As everyone knows, top officials of the 200-man Hsinhua News Agency bureau are the unofficial representatives of China in Hong Kong, aided by officers of the Bank of China, managers of China Resources Company, which guides Chinese business in the colony, and leaders of the Hong Kong Federation of Trade Unions, the Communist-controlled labor organization.

#### Plans

Peking apparently has plans for Hong Kong. Not only is the colony China's second most important trading partner, it is a political doorway to Southeast Asia and the non-Communist world. Through the intricate relations of the 20 million overseas Chinese throughout Asia who are tied to Hong Kong through numerous family and business connections, the colony serves as a vital political bridgehead. The most important target of that bridging effort is Taiwan, which Peking feels must be convinced to rejoin the motherland eventually.

For the British, the important date is 1997. That is when the 99-year lease concluded between Britain and Imperial China in 1898 ends. Hong Kong Island was originally acquired in perpetuity following the Opium Wars and a further slice of the tip of Kowloon Peninsula and a few small harbor islands added in 1860. But the bulk of the land and the outlying islands came in the New Territories lease. Without that leased land, the colony is unviable as an entity.

In trips to China last year, local businessmen were assured by Peking officials that nothing was being contemplated to change the status of Hong Kong. The Chinese made no mention of the lease date, leading to perhaps unjustified optimism that somehow 1997 might pass without any action being taken. After all, China considers Hong Kong, like the disputed Siberia border, a result of "unequal treaties forced on weak China by imperialist powers," and does not feel bound by treaties and leases.

For the next 19 years, Britain will continue to rule. But ruling un-

(Continued on Page 8)

## Surge in Imports Causes First Trade Deficit

HONG KONG (IHT) — A somewhat startling increase in imports combined with slightly slower export growth is producing a potentially dangerous trade deficit for Hong Kong. The deficit reached \$1 billion on a total volume of \$11 billion during the first six months of this year, twice the rate of previous years.

Hong Kong normally has a visible trade deficit of approximately \$1 billion a year or about 5 percent of its total trade volume, with invisibles (banking, insurance and tourism) more than picking up the shortfall. This year the deficit is nearly 10 percent of the visible trade total.

Analysts blamed a slippage in the value of the Hong Kong dollar on this unprecedented deficit. The colony's currency fell even against the U.S. dollar last month by a few points and against a trade-weighted package of currencies by more than 12 percent. Especially sharp drops were noted against the Japanese yen, British pound and German mark, all major trading currencies.

Trade officials believe that the strong upsurge in imports that started last year and continued this spring has already begun to level off. One substantial area of high imports has been construction equipment needed by the Mass Transit Railway project. That demand has now peaked although steady requirements will be evident in structural steel, cement and other building materials for at least the next three years.

Other import surges have been in such products as diamonds and watch components, reflecting the growth of Hong Kong as a jewelry and watch center.

#### Worried

What worries economists is a growth in consumer imports. Imports of apparel and clothing accessories were up 41 percent in the first six months of this year. Food imports gained 10 percent.

"We are becoming a consumer society," noted a banker.

Total imports rose 20.5 percent

during the first half compared to a boost of 14.8 percent in total exports. William Doward, acting director of the Trade, Industry and Customs Department, said he expected domestic exports to build during the last two quarters, especially in the fundamental textiles and garments industries.

Textiles normally account for half of Hong Kong's exports. Textile and garment factories employ 45 percent of all manufacturing labor. This vital sector has been hit

hardest by protectionist quotas. The five-year pact with the European Economic Community that was concluded last December freezes Hong Kong exports at 1977 levels and severely limits future growth. An expanded system of categoriza-

tion reduces flexibility in meeting fashion changes.

The U.S. textile agreement was far more generous, allowing a growth rate of 6 percent per year. Canada, Australia and Norway (Continued on Page 3)

## China Diversifies Its Investments

HONG KONG (IHT) — On Tsing Yi Island, on the western edge of Hong Kong's Victoria Harbor, three intriguing new industrial projects are underway. All three are part of a new offensive by China not only to tolerate this British colony on its coast but also to build it into a major appendage of a growing South China industrial region.

At a cost of \$20 million, a machine tool plant is being erected to manufacture items for use in China and for sale in other countries. Nearby is another \$20-million project, a ship repair yard that will rebuild and refurbish Chinese merchant vessels. A major oil pier and storage area on the island will complement a smaller tank farm built last year near the Kowloon-Canton Railway. The two oil depots are key installations in a five-year-old Chinese push that has gained 15 to 35 percent of the local market for diesel, fuel oil, jet fuel, bunkering fuel, kerosene and associated products.

The Tsing Yi Island projects sit

near two other symbols of Hong Kong's new industrial image — a polystyrene plant built by Dow Chemical at a cost of \$32 million and an American plant making outboard marine engines.

Strictly speaking, the China projects are not counted as foreign investment because the funds come from Hong Kong businessmen through companies registered in Hong Kong. Yet the installations would not be possible without assurances of support from China.

A good example is the Far East Overseas Oil Company (Feoso). When the oil embargo hit Hong Kong in late 1973, China immediately dispatched small boats with diesel and fuel oil to "help our compatriots in Hong Kong." That soon led to a major endeavor by Feoso to capture a good share of the market.

The strategy has worked. Feoso now operates retail service stations as well as marine fuel boats and other distribution outlets.

Peking and Canton officials have assured businessmen that China is anxious for more such ventures in cooperation with overseas Chinese entrepreneurs. Ventures could include new plants using Chinese raw materials with payment being made in part of the production. Special export-processing zones may be established in neighboring Kwangtung Province, built by foreign money but utilizing Chinese labor and materials.

The range of China investment in Hong Kong is broad. In recent months, a number of medium-sized buildings have been purchased. This summer, a large new China Products Co. department store was

opened in direct competition with two stores operated by Japanese companies.

The major coordinator of investments and commerce is the China Resources Co., located in the Bank of China. In June, the company announced it was outgrowing its quarters in the bank and would oc-

cupy prime space in a new waterfront skyscraper now under construction. The bank, together with a dozen smaller Communist-controlled banks in the colony, provides loan funds and guarantees to front companies.

China's investments dovetail

(Continued on Page 4)

## Flow of Refugees Increases

HONG KONG (IHT) — As if a valve had been turned on somewhere in China, suddenly there has been an increased flow of refugees into Hong Kong this year. Thousands cross the Lowu border bridge clutching legal exit visas, but hundreds dare the sharks and tides of Mirs and Deep bays for a dangerous "freedom swim" to Hong Kong.

During the first six months of this year, 23,500 legal immigrants passed into the British colony, nearly doubling the rate for the last year. An estimated 3,600 swimmers have sneaked into the colony, with more than one-third being nabbed by police in the attempt and sent back to their homeland. (Authorities generally assume that they catch about a third of the swimmers. But, for every one caught, by some estimates, as many as six get past the police.)

Perhaps no act of the Hong Kong government has so riled the sensitivities of liberals — especially British liberals — than the forcible return of freedom swimmers to China. Derek Davis, editor of the prestigious Far Eastern Economic

Review, editorially labeled the repatriation order "despicable."

The order was issued after a flood of legal immigrants began appearing at Lowu bridge with duly stamped Chinese exit visas in 1972-73. As the 1897 lease on the New Territories specifies free access for Chinese into Hong Kong, the government is powerless to halt legal border crossings. Occasional large numbers of genuine refugees crossed the border after 1949 (especially during the famines of 1960-61), but until 1972 China permitted only a trickle of legal leavers. That year, the numbers suddenly skyrocketed to nearly 10 times the previous level. More than 20,000 gained exit visas compared to the mere 2,500 the year before.

In 1973, the stream became a torrent. Chinese officials implemented an order from Chairman Mao Tse-tung to allow overseas Chinese and others with good reasons to do so, to leave. Hong Kong protested that a gentlemen's agreement made in the mid-1960s to permit only 50 refugees per day across the border was being violated.

Actually, there was no formal

agreement. "Fifty" had merely been suggested to neighboring Kwangtung Province authorities as the number the British colony believed it could reasonably absorb. The Chinese seemed to take the hint and the flow of refugees slowed.

#### Alarm

But with daily crossings reaching 600-plus in 1973, Whitehall called in the Chinese ambassador to express alarm. Details of what occurred have never been fully made public. "Peking fully understands our situation and point of view," a spokesman said at the time.

In what appeared to be a new and perhaps odious gentlemen's agreement, China reduced the legal immigration flow to about 100 per day, and Hong Kong police were ordered to send back freedom swimmers caught in the act — with a proviso that if they made it into the urban areas without detection they would not be hunted down. This "run the gauntlet" approach salvaged the British sense of decency somewhat. The government denies

(Continued on Page 8)



### This Section

This special report was prepared and written by Harold Ellithorpe with Richard Hughes, Saul Lockhart, June Shaplen, Kevin Sinclair and Harvey Stockwin.

The Hong Kong dollar has a current value of \$4.66 to one U.S. dollar. References are in U.S. dollars unless otherwise noted.



# Colony Expected to Remain Banking Center Despite New Tax

**HONG KONG (IHT)** — Financial Secretary Philip Haddad has determined to push efforts to close a loophole that has allowed banks in Hong Kong to escape the colony's 17-percent profits tax on offshore loan earnings. Coming at a time when banking profit margins are narrow, the move could disturb the growth of Hong Kong as a financial center.

Chase Manhattan Bank, for one, revealed last month that it had begun booking syndicated offshore loans through Bahrain, pending study of the impact of the tax legislation. Other foreign banks were similarly cautious.

As American banks handle up to half of an estimated \$21 billion in syndicated loans in the Asia-Pacific region (Chase alone claims to manage or co-manage 29 percent), the taxation proposal may cost the colony a significant amount of international banking business.

## Why?

We can have our loans signed anywhere, said one banker, "so why should we put them where we might get taxed?"

Government revenue from the new measure would amount to about \$30 million for this year and only \$17 million a year thereafter, not a material item in the budget.

Most bankers, however, doubt that the tax will seriously impair Hong Kong's utility as a financial center for Asia. Expansion of the variety and levels of services available in the colony has been phenomenal. More than 200 merchant banking offices (deposit-taking firms called "finance companies" here) offer syndications. There are 76 commercial banks, and another 16 foreign banks have been approved under new rules issued last spring, breaking a 12-year freeze on new bank licenses.

## Risky Loans

The decision to allow more banks to operate is in part an effort to put more backing behind the merchant operations. Many of the finance companies are lowly capitalized offshoots of foreign banks that have been scrambling for what more conservative bankers feel are

risky loans. Lacking full backing from their home offices, these companies could someday prove embarrassing.

As branches of their home bank, however, the Hong Kong offices would be assured full home-office support. Newly licensed banks are restricted to a single office, and their parent bank must have at least HK\$3 billion (U.S.\$638 million) in assets. Stricter regulations have been formulated to control finance companies remaining outside the licensed sector.

A few cynics saw the breaking of the freeze on new bank licenses as paving the way for the colony's biggest institution, the Hongkong and Shanghai Banking Corp., to buy Marine Midland Bank, of New York, in what is one of the most startling acquisitions in years. With combined assets of more than \$29 billion, the two banks will become a major force in the New York money center. The purchase, if approved by Marine Midland stockholders and U.S. regulatory agencies, will put Hong Kong on the map as a major world banking center.

## Deaf Ear

Hongkong and Shanghai Bank, along with the Chartered Bank, also issues much of the private script that is Hong Kong's currency and acts as an unofficial central bank. The World Bank and, this past summer, the retiring banking commissioner, Anthony Ockenden, have urged the Hong Kong government to consider creating its own central bank. Hongkong and Shanghai Bank said Mr. Ockenden, "could find that its greater interests outside Hong Kong might not permit a commitment to Hong Kong's monetary management to the same extent as in the past."

Thus far, the government has

*Expansion of the variety and levels of services available in the colony has been phenomenal. More than 200 merchant banking offices...offer syndications. There are 76 commercial banks, and another 16 foreign banks have been approved under new rules...breaking a 12-year freeze on new bank licenses.*

turned a deaf ear to such pleas. While able to intervene in currency matters, it prefers to allow private banks to issue its money (crediting

the government accounts in hard currency for all such issues). Interest rates are set through the Exchange Banks Association, which represents all licensed banks.

Prime rates were boosted twice this year, in April and July, bringing the colony's rate to 6 percent. For a time last winter, prime rates were actually lower than inter-bank rates. The government actively en-

courages development of new financial institutions. Over the past two years, Hong Kong has opened a commodities exchange for cotton and sugar and a silver exchange to add to globally important gold trading on the Chinese Gold & Silver Exchange and has introduced certificates of deposit and floating rate notes.

There is talk now of opening a currency exchange for forward trading, a move that would help the Hong Kong business community.

While some syndicated loans may move to tax-free havens, Hong Kong appears to be secure in its

claim to be Asia's financial center. Among the 16 new banks authorized are some of the world's largest, including Morgan Guaranty, Manufacturers Hanover, Commercial and Credit Lyonnais. All five of the big London gold bullion brokers now have active branches in Hong Kong. And such Wall Street brokers as Shearson Hayden Stone and Salomon Brothers have joined Merrill Lynch and W.I. Carr here.

A secondary market is being actively developed to handle floating rate notes, certificates of deposit and commercial paper.

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## Four Stock Exchanges Drawing Investors

**HONG KONG (IHT)** — In March 1973, a dizzying euphoria engulfed the four stock exchanges here as the Hang Seng Index of top stocks punched through the 1,700 level. Banks incautiously loaned millions on slim margins to amahs, office clerks and anybody who wanted to take a ride.

In three weeks, it was over. The Hong Kong market collapsed with a classic, painful smashing of small investors. The index lost more than 1,000 points in a few months. Only the wily got out in time — and many who thought they were smart found themselves unable to meet margin calls.

Memories of that disaster left investors here numb for five years. Even after the recession recovery of 1975-76, the four exchanges that handle the colony's share business remained ominously quiet. Brokers were forced to reduce their staffs and cut overheads. The once-glorious market managed only 383 on the Hang Seng Index by the first of this year.

## Confidence

Confidence began returning in March. Suddenly, in mid-May, investors began to return in force. By early June, the 500 barrier had been pierced and in early August, the market surpassed the 600 mark. Top analysts point out that the rising index cannot be considered mere speculative fever. Ronald Li, chairman of the Far East Exchange, said, "If the stock market is to be any indication of our economy, the index should be

around 1,000." He explained that the market had failed to keep pace with the very real growth in Hong Kong's economy, and the present surge was a justified return to proper perspective.

During the first months of the present boom, investors played cautiously, taking profits at intervals of a few days, apparently testing the solidity of the climb. By mid-August, the trend appeared secure. Volume leapt from \$30-\$40 million a day to more than

\$65 million as foreign investors began to flock in along with smaller Hong Kong buyers. Blue chips attracted much of the activity, adding 10-20 percent over the summer months. The big stars, however, were the property compa-

nies such as Cheong Kong, New World Development and Sun Hung Kai Property. Brokers said much of the new money was coming from investors who had been putting their funds directly into property developments but now had decided

to end that speculative gambling by buy shares in the more stable, blue-chip companies.

Funds from Europe (especially London) and from Southeast Asia joined what many brokers had long considered a very underpopulated market.

One factor that could fuel the rising index is that bank deposit rates have not been high. Many companies have become highly liquid as a result of trimming their inventories and commitments because of weak currency disorders and sluggish trade. Company treasuries are now churning on the stock exchange, which promises to outpace inflation and bank interest rates.

"There's an awful lot of chasing too few shares," remarked the broker. "That can send stocks too high too fast."

For the first time in half a decade, companies are dusting off old programs for new issues, a sign that the investors may finally be getting over their 1973 jitters.

Conservatives are predicting an index of 750 by year's end. But the most doer pessimists agree. One broker, happily re-hiring men and share clerks, declared, "This market is here for at least 18 months, maybe more. If there's a crunch, don't look for it until next spring."

By late summer, the blue chips and property issues had not suffered along the general list of less attractive stocks, causing observers of the market to note that perhaps something had been learned from 1973 after all.

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## World Gold Price Starts Day Here

**HONG KONG (IHT)** — Tucked on a small back street in Hong Kong's western district is a unique institution, the Chinese Gold & Silver Exchange Society. Every morning, floor dealers representing the society's 195 broker-members set the opening world price for gold. As the price of gold went over \$200 an ounce this summer, up to a million ounces a day were traded with a secrecy that frustrates statistics-minded international brokers.

In existence for nearly seven decades, the Chinese Gold & Silver Exchange was originally a collection of small bankers and money changers operating in the old Chinese business district. After World War II and the currency stability that went with the Bretton Woods Agreement, the exchange switched to gold trading, servicing the colony's large jewelry industry — and, some say, feeding smugglers throughout Asia.

Being exclusively Chinese, the exchange trades in 99-percent pure gold bars of five tael (approximately six ounces) weight. London, Zurich and American markets use a fine ounce of higher (99.9) quality. Gold shipped into Hong Kong must actually be degraded to meet the exchange's standard. Five-gram bars are assayed by a scratch comparison test using a piece of Chinese gray slate. Once chopped with the exchange's mark, the bars are accepted by all members.

It was a government decision in 1974 to remove gold from all import and export controls that suddenly gave the Chinese exchange an important role in world trade. In the four years since that decision, Hong Kong has become a vital link in a 24-hour global trading day, filling the hours between the close of the New York and Chicago markets and the opening of the London and Zurich markets.

American commodities dealers and the Big Five bullion houses of London have found it necessary to open Hong Kong offices. Although not allowed membership as brokers on the stubbornly Chinese

exchange, they have developed an international price quotation based on daily trading on the Hong Kong market. Brokers often find they can arbitrage between the world markets. The Chinese exchange even stays open a half-day on Saturday, giving world investors a chance to hedge their weekend bets.

The exchange opened trading this summer in another commodity, silver. While the word silver is in the society's name, it had never traded the metal, the society name coming from the Cantonese *kam ngan*, literally gold and silver but meaning money.

Hong Kong's Chinese merchants are experienced — and cautious — risk takers, and gold trading suits their temperament and penchant for discreet operations. Brokers representing Taiwan interests rub shoulders with Communist bank dealers. Overseas Chinese from throughout Southeast Asia have their dealers on the floor. Photographs are not allowed, records of transactions not revealed and settlement is by physical delivery within 24 hours.

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## Trading Day

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courages development of new financial institutions. Over the past two years, Hong Kong has opened a commodities exchange for cotton and sugar and a silver exchange to add to globally important gold trading on the Chinese Gold & Silver Exchange and has introduced certificates of deposit and floating rate notes.

There is talk now of opening a currency exchange for forward trading, a move that would help the Hong Kong business community.

While some syndicated loans may move to tax-free havens, Hong Kong appears to be secure in its

claim to be Asia's financial center. Among the 16 new banks authorized are some of the world's largest, including Morgan Guaranty, Manufacturers Hanover, Commercial and Credit Lyonnais. All five of the big London gold bullion brokers now have active branches in Hong Kong. And such Wall Street brokers as Shearson Hayden Stone and Salomon Brothers have joined Merrill Lynch and W.I. Carr here.

A secondary market is being actively developed to handle floating rate notes, certificates of deposit and commercial paper.

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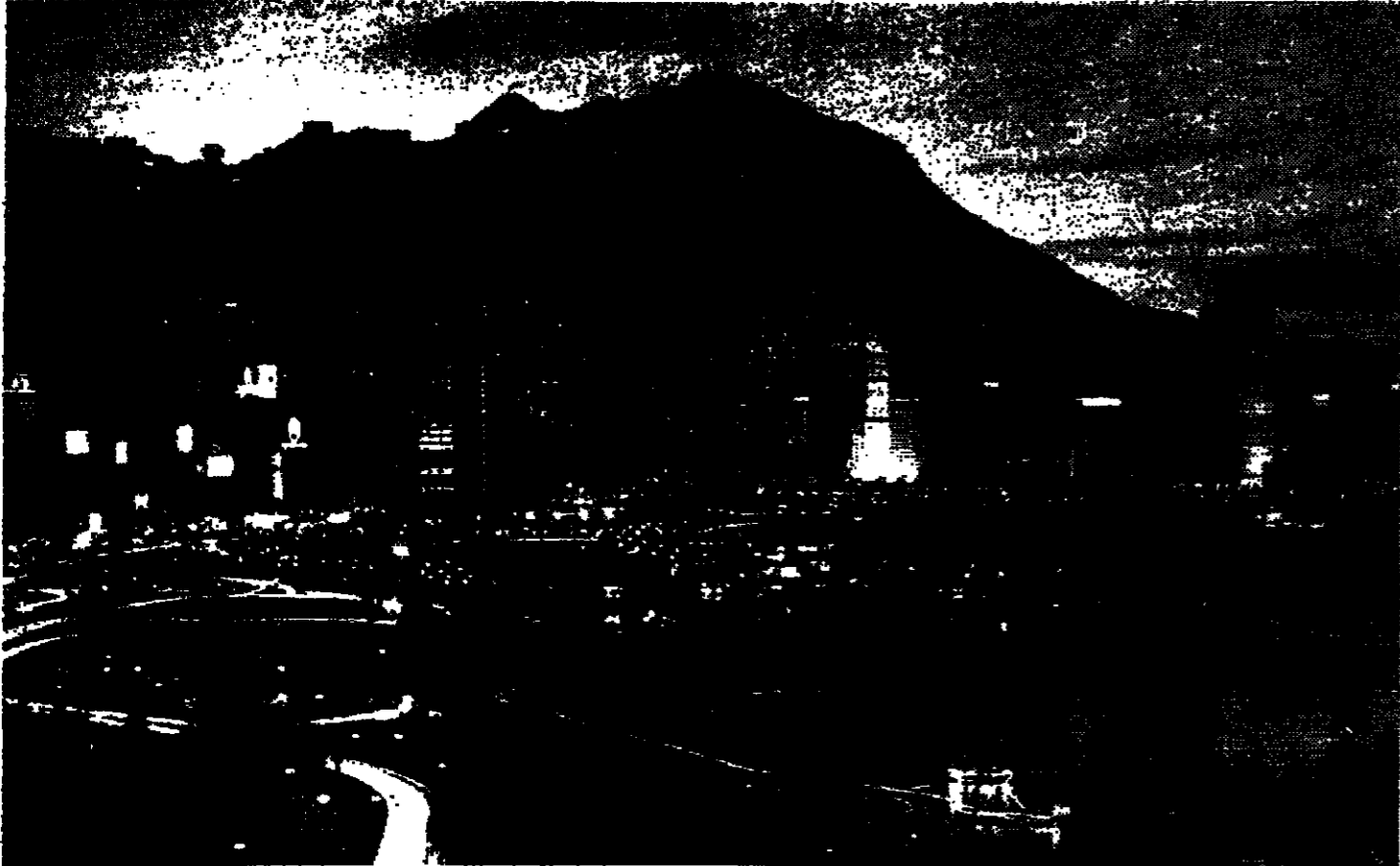
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Toll-free: 1 800 20 20 20  
Telex: 200000  
Telex: 200000

**MAIN OFFICE**  
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Toll-free: 1 800 20 20 20  
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### FAR EAST NETWORK

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Telex: 200000

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**MANILA**  
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Phone: 02 251 1111  
Telex: 200000

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# 'I Only Plough...the Harvest Will Take Care of Itself'

**HONG KONG (IHT)** — Last year's textile agreements revealed the vulnerability of Hong Kong's economy to protectionism. In an interview with Harold Ellithorpe for the International Herald Tribune, T. K. Ann, chairman of the Hong Kong Trade Development Council, discussed some of the problems in finding new outlets for its basic products and developing new industries. Mr. Ann, who is also chairman of the Windsor Industrial Corp. Ltd. and a member of the Legislative Council, is serving on the top-level government-industry committee on diversification, whose findings are expected to establish a colony program for the coming decade.

Mr. Ellithorpe — How serious is the protectionist sentiment now?

Mr. Ann — It seems to me it is still developing because protectionism is tied up with votes for politicians in many countries. It will be

extremely bad for the whole world if it comes to a stage where everyone will find it difficult to sell their products. Looked at in another way, protectionism protects the weakest. I mean the most inefficient producers.

Q — How severe were the restrictions placed on Hong Kong textile imports by the European Economic Community last year?

A — Well, according to their side, it was not bad at all. They say they gave us a figure equal to what we had in 1976 (a high export year), or maybe a little less in some categories. In the future we are allowed a little improvement, but we cannot maintain at a very low level. That's why we have to go for diversification of our industry. Also it was bad for us because they imposed more compartments within the categories of textiles. Textiles are commodities

which shift in fashions. If there are more quota compartments, there is less freedom to meet fashion trends.

Q — The Trade Development Council and other business groups have been sending out numerous delegations to try to attract more foreign investment in Hong Kong. Have these efforts been successful?

A — We have been attracting a number of investors, but I must admit that the results have not been up to our expectations.

Q — Why is that?

A — I think the general investment climate worldwide is not so good. It's not just Hong Kong, but everywhere. The so-called inflationary psychology is not over yet. I mean, inflation partly inflamed by psychology. People are expecting

changes and are reluctant to invest at this time.

Q — Hong Kong delegations have gone to Eastern Europe and the Middle East looking for new markets. Has the search for new markets for Hong Kong's traditional exports proved fruitful?

A — There are lots of businessmen who want to join these trips. Right now we are organizing two to three trips a year. But the populations of these countries are small and purchasing power low. In consumer goods industries we need large populations. So we are more successful in France, in Japan. We penetrated very quickly into the United States and Germany. We must be careful. We do not want to move too quickly into new markets. That makes people unhappy. But we are making progress in market diversification.

Q — What about Southeast Asi-

an countries? Don't they offer closer potential for Hong Kong?

A — Many Southeast Asian nations are still inward-looking. We are trying to organize more outward-looking ventures with member countries of the Association of Southeast Asian Nations (Asean). I think when everybody is more outward-looking and less concerned with building domestic protectionist walls, we can have more opportunities for trade. You must consider that these people (of Southeast Asia) have little purchasing power. They can only buy cheap goods at present.

Q — Is shortage of land one of Hong Kong's problems in attracting new industries?

A — Yes, land at reasonable prices. After all, Hong Kong is a very compact place. Land is much cheaper in neighboring countries.

Q — How can that problem be overcome?

A — I myself think there are advantages in compactness. For example, people here in Hong Kong are more sensitive to overseas changes. They are better informed and react faster in making business decisions. I personally believe that, in this sense, we are at an advantage. For example, look at the fur business. We don't produce the furs, we have to import them. But today we have a basic number of workers in this field and they are prospering.

Q — There is much talk of Hong Kong trying to create heavier

industries, such as the new ship-repair yards and metal-working plants.

A — Heavy industries cannot be our main concern, because land for them is so expensive and space so limited. I think we are strong in textiles, garments, plastics, electronics and toys. In these industries, we are well placed and there can be a great deal of diversification within them.

Q — How is that?

A — Take garments. We have to trade up more in fashion. As a fashion center we are more advantageously placed than other competitors. Fashion often is not a direct sell. Very often it goes together with accessories, including shoes and handbags. We can bring in all sorts of raw materials to go with fashions.

Q — Can Hong Kong become a design center as well as a mass-production factory?

A — Yes. In our toy sector, for example, we are becoming very design conscious. Other countries won't produce moulds because they are too expensive. Our toy makers will produce moulds immediately. Recently an overseas buyer asked one of our plants to make a doll that would tan when exposed to the sun and turn light when brought inside. He didn't tell us how to do it. We have to figure that out ourselves.

Q — You see diversification as different than merely seeking new types of industries?

A — Definitely. In our basic



T. K. Ann

problems, they have only recently opened up. They have a lot to learn. They will always have state trading corporations which are not as flexible in meeting foreign needs.

Q — There is much talk of China seeking joint ventures here, in co-operation with overseas Chinese businessmen.

A — Yes, there are some joint ventures with Hong Kong people. These are more or less for export products.

Q — How do Hong Kong people feel about the end of the lease for part of Hong Kong with China in 1997?

A — Nineteen years is a long time. Any country can undergo changes in that time, even in 10 years. I think the Hong Kong people are adopting the attitude of Martin Luther, "though heaven may fall tomorrow, I will catch it today." I would rather quote a saying in Chinese: "I only plough, I don't care about the harvest. The harvest will take care of itself."

Q — Will the revaluation of the yen against the U.S. dollar hurt Hong Kong's basic industries, such as textiles and plastics? After all, you do buy large quantities of raw plastics and synthetic fibers from Japan.

A — That's very hard to say. Until now, Hong Kong has not suffered. We were doing all right when the yen was about 240, but now that it's hit 180-190, the Japanese will have to raise their prices. Then we shall have to face the problems that brings.

## Textiles Most Important Industry

By Harvey Stockwin

**HONG KONG (IHT)** — Hong Kong's textile and garment industry is, and will remain, the colony's most important manufacturing sector and the world's leading clothing exporter for the foreseeable future. But the relative importance of textiles seems certain to decline as Hong Kong's exports feel sharper protectionist squeezes — and as Hong Kong's resourceful entrepreneurs adjust to increasing restrictiveness in textile free trade.

Hong Kong statistics show that during the first quarter of this year, 356,000 workers, or 46.5 percent of those employed in manufacturing, were working in textile or clothing factories. This represented a drop of 13,000 on the first quarter of 1977 when the percentage employed in textiles (and clothing) was nearly 49 percent. As for most other indices, the drop has been relatively greater in textiles than in clothing. 1977 was, in any case, a year of diminished performance compared to 1976 and to earlier years.

In terms of exports, in 1977 fabrics and clothing together were worth more than double the total exports of the next three most important export lines — toys and dolls, radios, and watches and clocks. Exports of these three items stood at only 32.6 percent of overall textile exports in 1974. By 1977 they had increased to 42 percent.

### Downward Trend

The downward trend in the textile statistics that matter most to Hong Kong has been sustained in the first few months of 1978, although if re-exports and Hong Kong's sizable imports are calculated together, growth continues. But the key factor here remains that, while Hong Kong itself remains a free and competitive market, the world as a whole is not.

As Hong Kong sees it, the main factor in textile decline lies in the



Textile workers.

increasingly sharp restraints, mainly quotas, placed upon Hong Kong's market penetration of the developed countries. Restrictions are nothing new to Hong Kong's textile exporters. They have lived with them ever since the industry grew and boomed after World War II. But the latest bout of protectionism, particularly the quotas imposed by the European Economic Community in late 1977 for the next five years, are regarded with some bitterness. It is not only that the constraints are more severe — it is feared that the EEC quotas will be used as a precedent by others.

Comparative statistics produced

by the United Nations Conference on Trade and Development illustrate Hong Kong's importance in the international textile trade, as well as a reason for the EEC cutbacks. In 1976, Hong Kong ranked behind only South Korea and India as a supplier of textiles to developed countries. As a garment exporter, Hong Kong was way ahead of every other country, exporting \$2.7 billion worth as compared to South Korea's \$1.6 billion. Of this total, \$1.2 billion of Hong Kong's output went to EEC countries, accounting for 44 percent of EEC imports and representing a growth of 24 percent over 1975.

The new five-year quotas make such growth rates impossible in the future. So far, Hong Kong finds the United States less restrictive than the EEC. There are fears that the rising yen may force Japan towards greater protection for its textile industry. Canada and Australia have already put on restrictions.

### Too Many Eggs

In a sense, protectionism forces Hong Kong to recognize the obvious. It has put too many eggs in the textile basket.

The colony's rising wage and cost structure was bound to affect its competitive position in any case. In the sense that most quotas are bilateral rather than global, they even afford Hong Kong some protection from newly emerging, lower-cost exporters. Since the EEC has been keen to give poorer developing countries quotas in advance of their capacity, Hong Kong can take advantage by investing plant and expertise in these countries, as it may be doing in Sri Lanka. Additionally, Hong Kong can continue what it has always done — look for more markets on a worldwide basis and seek to move up-market in the quality of its clothing exports to developed countries.

So the outlook is not wholly bleak even though Hong Kong's overall economic growth rates seem certain to be less than they otherwise might have been in the ab-

sence of increasing protectionism. The main fear is that restrictions may gather momentum ahead of Hong Kong's conceivable ability to diversify within, or away from, the manufacture of textiles and clothing. Providing that fear is not realized, a more streamlined textile industry upon which Hong Kong itself is less dependent will emerge from the current dilemma as factories install automated machinery.

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— H.E.

## Imports Cause a Trade Deficit

(Continued from Page 1)

have all applied sharp protectionist measures in the past year.

Nonetheless, there is some room for optimism. Thanks to an increase in demand from the American and West German markets, exports in clothing showed an encouraging 6 percent growth during the first half of the year and is expected to do even better in the last half. Changing fashions have reduced somewhat the demand for such items as knitted shirts and denim jeans.

### Decline

The cutback in cloth fabrics and yarns shipments, however, is serious, declining 2 percent during the first half. Some Hong Kong spinners and weavers have decided to halt production and make better use of their property for other ventures. One of the colony's largest spinners laid off 1,000 workers in July, the first large cutback.

Many textile mills acquired too much equipment to mass-produce for the denim craze of 1975-76 and are now ill-equipped to handle the fully fabrics and corduroys that have become fashionable. Significantly, Japan boosted its sales of synthetic fabrics to the colony's garment industry by 14 percent this year.

Garment factories have proved more adaptable, "trading up" into what is now called "mass fashion." Hong Kong is becoming a fashion center with its own designers and a rapid response to fashion changes. While its products are far from Parisian haute couture, Hong Kong can supply the latest fashions to a mass market in advanced consuming countries better than its less qualified competitors in other developing nations can — though at higher prices.

Trade diversification is vital. On all, all leading industry and government officials agree. Efforts by the Trade Development Council and other private groups to find

new markets in the Middle East, Eastern Europe and Latin America have proven only minimally successful.

"We need large markets," noted T. K. Ann, a local industrial executive and last year's TDC chairman. "And that means going to America and Europe. Southeast Asia has the population but not the purchasing power."

### Review

A high-level government-industry committee is reviewing programs aimed at diversifying Hong Kong's industrial mix. The results, expected this winter, may put more support behind overseas trade offices.

One structural change is already evident. Hong Kong is rapidly becoming a watchmaking center. Long a source of bracelets and cases, the industry is now expanding into producing complete watch assemblies. Imports of components rose rapidly this year and exports shot up 60 percent.

One industry that looked impressive in recent years was transistorized radios, including citizen's band walkie-talkies. A sharp decline in the American market, however, dropped exports of radios an unsettling 29 percent during the first half of this year.

Toys also suffered a decline after having made major gains in recent years. Yet plastic flowers, one of the earliest success stories of Hong Kong in the 1950s, are showing a remarkable resurgence.

### Flexible

Restructuring will take many years. In the meantime, Hong Kong will remain dependent on its small manufacturing plants (more than 15,000 of them), which work in plastics, cloth and electronics.

Trade in general is expected to be up 11 to 12 percent this year, a fair measure of the colony's adaptability in the face of protectionism.



# Successful Tourism Ranks Among Colony's Top Industries

By Saul Lockhart

**HONG KONG (IHT)** — The main aim of tourism here is quite simple. In the words of John H. Pain, executive director of the Hong Kong Tourist Association (HKTA), it is "to maximize revenue." The goal fits perfectly with the colony's no-nonsense, no-frills business climate.

To get visitors to spend more money, Mr. Pain and his marketing staff are devising ways to get them to stay longer. To do this, he has to claim that Hong Kong's image is "more than just shopping" when, in fact, more shopping is just what he wants the visitors to do.

The HKTA has had some success. The average visitor now spends 3.8 nights in Hong Kong, up from 3.2 nights in 1972. Last year, 1.75 million visitors (an increase of 12.6 percent over 1976) visited Hong Kong, adding \$866.5 million to the colony's coffers, of which \$484.8 million went into the 14 shopping categories measured by the HKTA.

Tourism represents about 8 percent of the colony's gross domestic product, far behind the leading industry of textiles but very close behind the second leading industry, electronics. This has been achieved

with an annual budget for HKTA of \$5.26 million.

## Hotels

During peak months, the colony's hotels boast an occupancy rate of more than 90 percent. The HKTA, while eager to get more visitors, in general, is trying to get them to come during the "off-season" months, when there are more hotel rooms available than

the four cool, dry months (April-May and October-November) when most of the visitors do come.

As of June 30, Hong Kong's 48 hotels (of all classes) offered 13,709 rooms and 25,736 beds. Next year, there will be 51 hotels with 14,675 rooms and by 1981, there should be 56 hotels with 17,659 rooms available.

Hong Kong has received an unsolicited boost in its campaign to

get people to stay longer and spend more money. China opened the bamboo curtain in January to allow visitors and foreign residents in Hong Kong to visit it on various tours, with a minimum of trouble. One can actually apply for the Canton weekend tour early in the week and be in Canton by Saturday noon. Many tourists are now timing their trips to Hong Kong to include a side trip to China.

Mr. Pain said that tourism to

China "will naturally benefit Hong Kong's tourist industry." So far, he added, even though there have been "some travel industry groups from Hong Kong visiting China and vice versa, there are no plans for joint China Travel Service-HKTA promotions or budgets."

## Bottleneck

Mr. Pain and the HKTA — along with the rest of the colony —

have a serious problem in the bottleneck situation at Hong Kong International Airport, known around the world and locally as Kai Tak Airport. "We will need more airport capacity by the mid-1980s if the tourism industry is to continue expanding," Mr. Pain said.

In spite of a lengthened runway (to 11,130 feet on an 880-foot wide strip of reclaimed land jutting into

the harbor), improved and expanded terminal and passenger facilities (by 1979 the system will be capable of handling 5,500 people an hour), the countdown for Kai Tak has already begun.

For the tourist industry, this is a very serious matter. Ninety-five percent of visitors to Hong Kong arrive by air, and of the 4.9 million people who passed through Kai Tak in 1977, two-thirds were tourists. The airport now handles 28

scheduled airlines (the figure almost doubles when non-scheduled airlines are counted) with approximately 950 scheduled flights a week. There were 50,050 "aircraft movements" in 1977.

## New Airport

Expanding Hong Kong's major gateway is a very serious problem. Kai Tak is near downtown Kowloon and there is no place to add another runway. Plans are now under way to study the feasibility of an airport on Chek Lap Kok, a 1,500-acre island in the New Territories, the colony's largest island.

Any new airport located in the New Territories or on one of the islands would involve flight patterns that include some Chinese airspace. Previously, this fact alone precluded any discussions of a new airport.

But times change, as do regimes and attitudes in China. Stanley Yip, one of the astute businessmen behind legal gambling in Hong Kong's Portuguese neighbor, Macao, recently announced that a long-sought helicopter service to the 45 miles between Hong Kong and Macao is about to begin. The flight path will take the helicopter into Chinese airspace but this "has been worked out," according to Mr. Yip.

So a Chek Lap Kok airport may be the answer, but its development is at least eight years away.

## Mix of Industries Is the Key to Prosperity

(Continued from Page 1)

chips and property developers. With the addition of overseas money (much of it from Britain), the market began to rise. Contributing to the share market were overly low bank deposit rates that made the stock market look quite juicy by comparison.

## Another Jump

Banks began to shift in April, boosting prime rates from a low 4.75 to 5.5 in April and another half-point in July. Neither rise has

halted the outflow of funds and another jump is anticipated this autumn. A prime rate of 7 percent is anticipated by next year, according to private projections made by such large trading firms as Hutchison Whampoa Ltd.

Inflation has been held in bounds. The consumer price indexes (two are used for better definition of income-level groupings) have risen only four and five points over the past year. Thanks to dreary economic action elsewhere in the world, costs of imports, both raw materials and

capital goods, have tended to remain steady, easing the squeeze on Hong Kong manufacturers and builders.

Perhaps the most encouraging aspect of the Hong Kong economy is its bustling construction activity. Building of a subway system for \$2.4 billion is in full swing. Major housing programs, road developments, office and commercial complexes and private apartment construction are all exuberant contributors to the boom.

Unemployment is nearly nonexistent (about 3 percent of the facto-

ry work force). Thanks to stable and cheap food supplies (largely imported from neighboring China), living costs have remained within bounds and wage demands have remained modest.

As the third quarter approached, business analysts were again noting some disturbing factors entering the equation.

The Hong Kong dollar, one of the few privately issued scripts remaining in the world, has slumped against a basket of 15 trade-weighted currencies, particularly the Japanese yen and British pound ster-

ling. Even China's yuan has gained 8 percent against the Hong Kong dollar over the past year. The blame is put on Hong Kong's growing trade imbalance, \$1 billion in the first half of this year.

## U.S. Dollar

Parity with the U.S. dollar had been roughly maintained — but that tie was proving a deceiving comfort. As the United States is Hong Kong's leading export market, having rough parity of currencies seems wise. But when raw materials must largely come from other nations with sharply appreciating currencies, the Hong Kong manufacturer and exporter finds himself in a bind.

Thus far, that squeeze has been negligible, thanks to intense competition from supplier nations. However, economists such as Citibank's R.V. Rajanathan believe something must give way soon. Higher prices for imported raw materials must eventually translate into higher prices for exported finished goods and perhaps a severe loss of competitiveness in primary export markets.

Property development has been the golden route to fortune in recent years. When Hong Kong began to pull out of the 1974 recession faster than other places in the world, much of the credit went to a flurry of new projects such as Hongkong Land Company's \$600-million restructuring of the core of the central business district, and the impact of heavy government spending on housing, roads, reservoirs and sewers.

Domestic capital formation in buildings and public improvements can only be sustained in the long term by export earnings. "We export or we die," as the dictum is usually put. With protectionism a continuing threat to the basic textile and garment industries — to say nothing of the growing competition from less developed nations — Hong Kong must attempt to diversify.

This year the government has established a high-level committee to study speeding the diversification process, considering both market spread and basic shifts in industrial mix.

The problem has been realized for some years, and the government is encouraging capital-intensive, higher-technology industries by developing reserved industrial sites on cheaper land for new industries. While successful, the effort to expand the spread of economic activity will take many years. For the immediate future, over-dependence on a narrow range of labor-intensive industries is an uncomfortable fact the colony must live with.

## China Trade

Top executives now have their eyes on China. "I'm extremely bullish on China trade," said William Wylie, chairman of Hutchison Whampoa. His firm is exploring prospects for production-sharing ventures in China. Peking has indicated that Hong Kong will be integrated gradually and profitably with the growing industrial complex of Canton, South China's leading city.

Hong Kong is once again the major entrepot for China trade. Offshore oil discoveries in the South China Sea offer prospects for rapid expansion of business with the mainland. There is talk of an oil refinery to process the off-shore

crude in Hong Kong for sale elsewhere.

Other possibilities include joint ventures in Hong Kong, with China supplying the products to specification and Hong Kong merchants furnishing their marketing and distribution expertise. A large power plant being programmed by China Light & Power Co. for the colony will use Chinese coal and oil. Already a machine tool works, two oil depots and a ship repair yard are under construction by China in the colony.

"We always talked rather flippantly about the great Chinese trade possibilities," said Mr. Wylie. "Now we can see that they are really there."

—H.E.

## China Expanding Spread Of Investments in Colony

(Continued from Page 1)

with the colony's own desire to diversify its industries away from labor-intensive enterprises. With wages rising rapidly and other costs also increasing, Hong Kong can no longer compete in the lower ends of such industries as textiles, garments, simple electronic assembly and cheap plastic products.

Textiles and garments alone account for nearly half of the colony's exports and 45 percent of its manufacturing labor force.

Since 1972, the government has encouraged a program to attract higher-level technology and capital-intensive industries.

While recognizing no differences in taxation or other incentives between foreign and domestic investors, the government has moved to great industrial sites and reserve industrial areas for "preferred industries." Development is well advanced for industrial sites at Tai Po, Tsuen Wan and Tuen Mun. Tsing Yi Island, where the three new Chinese projects are underway, has been declared one of the industrial areas.

A major industrial area may be added on the north shore of Lantau Island, the largest of the Hong Kong group, if a decision is made to build a new international airport there and a connecting suspension bridge.

## Slow

Diversification has gone slowly. Of the 237 foreign investments registered at the end of last year, 211 were in labor-intensive industries, including 90 textile plants, 69 electronics factories and 23 watch-assembly works.

Under strong pressure from business groups, the government this year created a special high-level committee on diversification, headed by Financial Secretary Philip Haddad-Cave. The committee is studying ways to make land available at cheaper prices to local manufacturers seeking to upgrade their facilities, offer aid to smaller investors, coordinate training programs in technical fields and provide greater government assistance to private trade-promotion activities.

Foreign investment has not been great, representing only about 1 percent of establishments and employing only 8 percent of the work force. The United States, with \$220 million, has the largest share of the total \$443 million in foreign invest-

ment. Japan is second with \$85-million, mostly in electronics and textiles. British investors put only \$32.6 million in 33 enterprises.

The TDC and the Hong Kong General Chamber of Commerce have found many foreign manufacturers interested in locating plants in Hong Kong. However, investment decisions are being delayed due to less world demand for many products.

The possibility of the colony's reverting someday to Chinese rule is not a major factor in decisions on foreign investment, the promoters have discovered. The biggest problem is usually finding land that can be obtained at a reasonable cost.

## Expensive

Land in crowded Hong Kong is expensive. Either it involves costly reclamation from the seashore or clearing shantytowns or areas occupied by squatters and hawkers. Last year, a government land review determined that formation of new land would be a priority project well into the 1980s. Opening Lantau, an island very lightly inhabited and extremely mountainous, is expected to be a major step in providing more land for expansion. A final decision on developing Lantau — a multi-billion-dollar project — is expected to be made in late 1979 or early 1980.

Hong Kong's needs are somewhat different from those of other developing countries. Foreign investment is sought not because money is needed, but because such investments can bring in higher-technology industries. The colony's own businessmen possess large cash supplies. Gross domestic fixed capital formation last year rose 26 percent and has averaged 22 percent since 1970.

This high level of local investment makes joint ventures with foreign firms an easy approach. China has now discovered this fact — and is leading the investment drive in Hong Kong. China is also putting its weight behind higher-technology industries. While Hong Kong trade promoters were trying to talk American metals companies into opening metal-working and forging plants, it was China which quickly made a deal for a small machine-tool factory.

When — and if — China takes over the colony politically, it may discover that it already owns a good share of it.

Pa

HONG KONG (IHT) — The colony's most recent economic growth has been a surprise. In 1977, the colony's gross domestic product (GDP) rose 12.6 percent over 1976, adding \$866.5 million to the colony's coffers, of which \$484.8 million went into the 14 shopping categories measured by the HKTA.

Junk

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Feed

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Electron

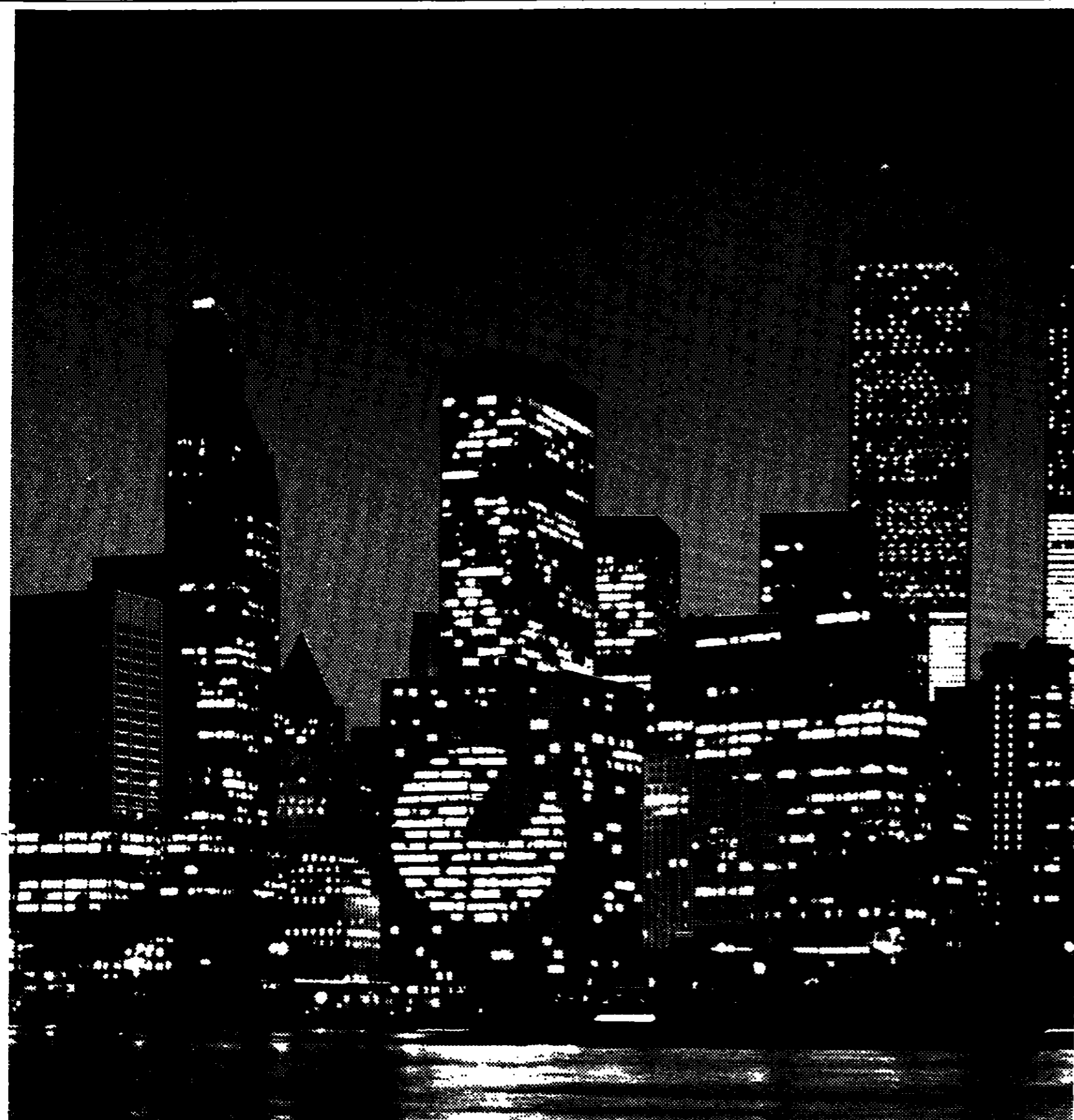
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Needs

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Vacancies

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## Pace of Construction Stops Only for the Sake of the Horses

HONG KONG (IHT) — So omnipresent is the noise of pile drivers, rock drills, dynamite blasts and jack hammers that Hong Kong's most recurrent pollution complaint is noise. Blasters at the verdant cross-island tunnel site had to halt work this spring race days because they were upsetting the horses at the Royal Hong Kong Jockey Club.

Nowhere else on earth, except perhaps Saudi Arabia, is the pace of new construction activity so brisk. An official at the Public Works Department admits that it will have difficulty spending the \$450 million authorized for new roads, waterworks, schools, hospitals and land formation this year. The separate Housing Authority 10-year program is in full

swing, with 44 contracts to let this fiscal year to build 56,550 more apartments to re-house 350,000 people. By 1981, they will have added a half-million dwelling units. Already the authority is the world's largest single landlord, with 2 million tenants.

The quasi-independent Mass Transit Railway Corporation is midway in completing the initial subway line from Hong Kong Island to northeast Kowloon via an under-harbor tunnel. A further link to northwest Kowloon has been started. The subway is estimated to cost an eventual \$2.5 billion, including a light rail line to be laid along existing streetcar tracks on Hong Kong Island.

Public sector building is more than matched by private activity.

Skyscrapers are rising at an enormous rate in Central District, Wanchai, Causeway Bay and in Kowloon. Buildings now going up range from 20 to 60 stories in height. At least five new hotels are under construction in one "golden mile" section of Tsingtsui on land once used by the Kowloon-Canton Railway.

The railway itself is being double-tracked to the Chinese border, and plans are under consideration for a tunnel link to the Kwai Chung container docks. Hongkong Land Company is spending an estimated \$600 million in redeveloping the central business core of the colony, a good share of which it owns. When completed, the project will include four major office high-rises surrounding a po-

diom mall, which is expected to become the business heart of Hong Kong.

The government is developing three so-called "new towns" in the New Territories. Actually mini-cities designed for half-a-million people each, the new towns provide additional space for both housing and industrial expansion. Another eight "market towns" are being developed in the hinterland.

### Speculation

To help entice high-technology, capital-intensive industries, the government is creating three new industrial sites with land reserved for foreign investors at somewhat less expensive prices. The building boom, which began in earnest as Hong Kong was com-

**The Housing Authority's 10-year program is in full swing...Already it is the world's single largest landlord, with 2 million**

**tenants...The building boom is now fueling some unwanted specula-**

**tion...**

ing out of the 1974-75 recession, is now fueling some unwanted speculation. New apartment structures are pre-sold before the first shovel of dirt is dug. Speculative increases in new apartment prices add double and triple to the eventual sale prices to eager homeowners.

This summer's spectacular rise in the stock market has been led by hectic dealing in the shares of the big property companies, including Hongkong Land, Cheung Kong and New World Development.

J.G. Stean, director of the Buildings Department for the PWD, noted that the high level of building permits approved by his office has held steady for the past three years. "I don't see any relaxation," he

said. "Certainly the government's construction expenditure will keep going up."

Committed to substantial improvements in social services and a giant public housing program, the government is committed to a development schedule at least until the mid-1980s.

### Mind Boggling

Ahead are further projects that boggle the mind and threaten the ears. Hong Kong's Kai Tak International Airport, built on a strip of land reclaimed from Victoria Harbor, is expected to be inadequate by 1985. Plans are being developed to put a completely new and much larger airport on land to be reclaimed on Lantau Island. This will require a huge suspension bridge to

the barren island that would cost about \$500 million and resemble San Francisco's Golden Gate.

There is a limit, however, as to how much and how fast Hong Kong can build.

"There is a finite number of workers capable of construction work," said Mr. Stean. "We haven't reached that level yet, but we are close to it."

Land shortage is the most obvious limitation — and land prices have skyrocketed. On Aug. 4, Lipak Investment Co., representing overseas Chinese interests throughout Southeast Asia, paid more than \$31,500 a square meter for a prime site adjoining one of the subway stations in Wanchai. That was a

new record — and double the previous high.

Property analysts have warned that "over-heating" is evident: a boom-bust cycle may be in the making. Others are not so wary. Most developments have been fully let before completion, and prime office space is not yet easy to find.

Analysts foresee no end to the shortage of factory or industrial land, and the government is constantly being urged to clear and form more new land that can be had at a reasonable price for industrial use. Nor do analysts foresee any basic problem in apartment building, thanks to tremendous pressures among the population to move out of the mass public housing estates into something better.

Where trouble could come is in commercial-office complexes where business confidence is a critical factor. By all counts, there is no lack of business confidence. Shares of property companies continue to rise on the stock exchanges.

"The people liable to get hurt," in the opinion of one real estate appraiser, "are the speculators who've been snatching up flats and office footage in hopes of making a killing. However, weeding them out isn't going to worry Hong Kong. This is a gambler's paradise, and gamblers will just switch to something new, like stocks."

—H.E.

## Junks, Tankers Share Busy Harbor

HONG KONG (IHT) — This colony is a shipping haven that defies simple description or in-depth analysis. Delapidated fishing vessels limp in from Vietnam carrying refugees, local junks are registered both in Hong Kong and in nearby communes on the Chinese mainland as they ply their trade outside the scope of official Hong Kong statistics. In the big league, Hong Kong owns huge tankers that fly the Panamanian flag, are controlled from Tokyo and never visit Hong Kong itself.

Just about the only valid assertion is that, so far as shipping is concerned, Hong Kong sees more of it every year. In 1976, 9 percent more ocean-going vessels representing 12 percent more tonnage entered Hong Kong compared to the previous year. In 1977 the numbers increased by 10 percent, the tonnage by 17 percent. One anticipated effect of the container revolution — more tonnage, fewer ships — has yet to make its impact on Hong Kong.

Nevertheless, 45 percent of Hong Kong imports and 62 percent of its exports are now containerized. The six privately owned terminals at Kwai Chung work around the clock to give Hong Kong its ranking as the third largest container port after New York and Rotterdam: 489,722 full containers discharged in 1977 and 521,602 loaded, taking the terminal past the million mark.

### Feeder Traffic

Altogether, a complex array of ships discharged 19.1 million tons of cargo in 1977 and loaded 6.5 million tons. Ocean-going vessels accounted for bringing in 17.5 million tons and taking out 6.3 million tons, with junks discharging nearly a million tons and taking out a quarter of a million. River launches and steamers brought in 643,000 tons and loaded 18,000.

Growth was partly assisted by typhoons elsewhere, which badly damaged Kaohsiung terminal on Taiwan and also interrupted the container flow at Keelung.

## Electronics Still Growing, Needs Workers and Parts

HONG KONG (IHT) — The electronics industry is moving ahead in spite of growing shortages of labor and material. The value of its 1977 exports was \$295 million, almost double what it was half a decade ago. The figure represents 12.2 percent of the colony's domestic exports, with a utilization of just less than 10 percent of the total work force.

The electronics industry as a whole contributes 9 to 10 percent of Hong Kong's gross domestic product, and it receives one-quarter of total foreign investment in the colony, about \$112.2 million. Industry growth averaged about 22 percent a year during the past five years, and it is forecast this year to rise between 15-20 percent.

"The main problem with the electronics industry is the labor shortage," said Alan Lee, general manager of Ampex Farotec, wholly owned subsidiary of the Ampex Corp.'s Memory Products Division. Mr. Lee puts the blame squarely on the quasi-governmental Mass Transit Railway, the \$2.5-billion subway system being dug in the colony, for "poaching technical staff, offering salaries 30-50 percent above the private-sector wages that just cannot be met by manufacturers."

### Vacancies

Government figures for the end of 1977 showed 3,379 vacancies in the electronics industry — it employs 70,998 workers — a figure which represents less than 10 percent of the total vacancies reported in manufacturing industries. Salaries have risen approximately 20 percent in the past six months in an effort to keep workers from leaving the industry or changing jobs.

Christopher Yeung, managing director of Apcom Systems Ltd., a manufacturer's representative for American Microsystems Inc., consultancy firm for micro-computer systems, feels another problem fac-

Much of Hong Kong's container growth has resulted from feeder traffic, which may decline as other terminals in South Korea and the Philippines begin operating. But container growth through the Sino-British land bridge to Europe grows steadily. There will probably soon be a feeder container terminal at Canton that will need Hong Kong's ocean-going facilities as China trade increases. The expectation is that growth will continue, if less dramatically than in the past. Such steady increases could mean that another terminal will be needed in the 1980s and this possibility is being examined.

Along with the variety of vessels go intricate arrangements that govern their movements. Hong Kong is the home of two of the world's major shipping magnates, C.Y. Tung and Y.K. Pao. Mr. Pao has been much in the news this year as the complex way has come to light in which his World-Wide Shipping group was interlocked with nearly insolvent Japanese shipping interests.

### Rescued

In the boom conditions of the late sixties and early seventies, Mr. Pao's World-Wide fleet had increased with ships built in Japan and leased on long-term charters to Japanese operators, notably the Japan Line. Financing for the deals was secured on the basis of the long-term charters. But a depressed shipping market finally left Japan Lines with surplus tonnage and over-extended commitments. Mr. Pao's well-protected legal position was good only so long as Japan Lines remained solvent.

Japan Lines has been rescued and taken over by the Industrial Bank of Japan. The indications are that Mr. Pao has had to consider that the previously profitable arrangements had now produced flags of (inconvenient) The and other Japanese interests have guaranteed to honor foreign obligations, but in a way which insures that just as profits were shared by the Japan-Hong Kong axis in the past, so debts are shared in the future.

Of course, the opposite is also true. When there is a glut of ICs, Hong Kong's manufacturers stock up on the cheap components.

### Key

The key to ending the shortages of material in the electronics industry would be to manufacture all components in the colony. "We are flexible enough and skilled enough to do it," Mr. Yeung said, "but the Hong Kong people are normally interested in short-term investments. Besides, Hong Kong is not in a leadership position. It always follows, normally as an off-shore assembly plant."

So far, only one international electronics firm, Fairchild Semiconductor, is assembling components here (but not fabricating them) and this is on a very small scale.

Hong Kong's labor prices are not the cheapest in Asia, forcing the colony's electronics manufacturers to sell the high technical sophistication of its work force rather than the availability of cheap labor, an irony considering the colony's reputation as a center for cheap, unsophisticated labor.

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# China Watching: Better to Know Half Than to Know Nothing

HONG KONG (IHT) — China watching is virtually an industry in Hong Kong, occupying several hundred academics, journalists, translators and intelligence agents. No one has made a precise count of these gnomes. Even old-timers in the field admit that they do not know everyone watching with them.

The most visible watchers are those in the press corps. Some are correspondents assigned to their publications' Hong Kong bureaus for one to three years. Others are professional sinologists who have devoted their lives to attempting to comprehend the enormity and variety of the world's most-populated and least-known nation.

For journalists, the introduction to China watching is mind-crushing. Visits to China are rare and interviews with significant officials even rarer. The China "beat" consists of spending dull hours studying hundreds of translated newspaper reports, radio broadcasts and propaganda material that flow with seemingly endless enthusiasm from the Chinese media. They look for signs of shifts in official policies and political realities in the small clique of Communist leaders in the super-secret politburo as well as the activities of the nation's 900 million people in 29 provinces, 2,200 counties, 50,000 people's communes, 750,000 production brigades and 5 million rural production teams.

## Allusions

The Chinese cloak their words with historical allusions, subtle changes of phraseology, hints of ideological nuances and reports of new models that they want the masses to emulate. China watchers must somehow manage to glean from these messages their real portent.

"We read between the lines of the official media," explained one of the most experienced journalists, Newsweek's Sydney Liu.

Mastering this is not a science but an art. In it are combined a historian's sense of proportion, a newsman's snuff for the important, and the mental endurance of a tax assessor. It is, in short, not for everyone.

Hong Kong earned its reputation as a China-watching center in the 1950s when the "bamboo curtain" dropped around the new Communist regime. Many who made Hong

Kong their base had intimate experience with pre-Communist China. Father Ledany was a Catholic priest inside China who was forced to flee. Today he puts out the China News Analysis, a detailed and articulate newsletter widely read by other China watchers. Sydney Liu was the managing editor of one of China's largest newspapers who came to Hong Kong in 1950 after

watching the new regime in action for several months.

The failures of the Great Leap Forward in 1958 and Cold War needs for intelligence about China expanded the number of China watchers. But it was the stirring up of the Cultural Revolution that brought China watching its first real moment of glory. Chairman Mao Tse-tung, thought to be too

old and passing from the center of political power, suddenly unleashed a revolution of Red Guard youths, who dramatically smashed the very peaks of power in Peking. Unraveling the momentous events of 1966-68 presented a tremendous challenge. News bureaus were enlarged and more full-time China watchers were added to the staffs. The same was true of diplo-

mats China watching, and analysts were assigned to nearly every consulate in the colony.

By 1972, when Hong Kong-based newsmen accompanied President Nixon on his visit and China was brought into the world of normal international relations, the industry was at its height.

With Western embassies opening in Peking—and a handful of West-

ern journalists allowed to work there—many feel, as one American reporter put it, "the days of the Hong Kong China watcher are numbered."

That has proved to be a premature verdict. While some diplomatic staffs have transferred their analysts to Peking, the bulk of China watchers remain in Hong Kong. The reason is that China watching

may be easier from here than it is from Peking.

David Bonavia, who served a long stint for the London Times in Peking, wrote a scathing article when he moved to Hong Kong in 1976 (he is now chief China watcher for the Far Eastern Economic Review). Lack of access to officials, and isolation from news sources, he said, were driving journalists and

diplo-mats away. Reporters scarcely ever meet important officials in the hierarchy and are confined to questioning Western diplomats and information officers at the foreign ministry.

In more recent times, reporters have been permitted trips through the countryside, and their questions have been more promptly and fully answered.

In Hong Kong, at least, the flow of translations, documents, travelers and other sources is steady and well organized. Here there are libraries of materials and, more important, a large coterie of fellow China watchers with whom to compare interpretations.

Is there really a fierce political struggle between Hua Kuo-feng and Teng Hsiao-ping for the leadership of China? Is the Napoleonic Mr. Teng actually in charge of China's post-Mao foreign policy? Such questions are more than the academic curiosity of reclusive sinologists. They go to the heart of the strategic questions of our times, and the world is becoming increasingly dependent for answers on this still alive and functioning Hong Kong industry.

"We may be wrong half the time," admitted a State Department expert, "but that's better than knowing nothing, and that's what it really comes down to." —H.E.

## Work Force Drawing Second Highest Wages

HONG KONG (IHT) — Hong Kong's diligent, hard-working labor force may seek further wage hikes during the coming months, which could trigger an inflationary spiral. At least, this is the view of the Hongkong and Shanghai Banking Corp., which declared in its most recent report on the colony's economy:

"The specter of explosive inflation always lurks in the background if the economy gets overheated."

While the bank does not believe the economy is overheating, its daily wage index for the most recent reporting period showed workers getting 9 percent more than a year before.

Noting that unemployment was a mere 3 percent of the 766,000 manufacturing workers, the bank warned of "an extremely tight labor market now developing in Hong Kong." Vacancies registered by factories were 7.6 percent of the work force, double the unemployment rate and the highest ever.

## Wages

Hong Kong has managed to escape excessive wage demands in the 1970s, thanks largely to non-aggressive labor unions that see their role more as mutual aid organizations than wage-and-hour bargaining units. Nevertheless, wages have steadily risen since 1975 as shortages developed in various trades (textile and garments in 1976, construction in 1977 and 1978).

Today, Hong Kong workers are paid the second highest wages in Asia (after Japan), a concern to textile and electronics companies that feel the colony is becoming overpriced in competition with such cheap-labor neighbors as the Philippines, Malaysia and Taiwan. Average daily factory wages in

March were \$8.32, up from \$7.34 a year earlier, but skilled workers are earning up to three times as much in construction and other labor-short trades.

One of the harshest criticisms of the colony's laissez-faire philoso-

phy is that it gains its profits from the sweated labor of its Chinese workers, including a high proportion of women and children. Efforts by the government to gradually introduce remedial legislation in such areas as workmen's compensa-

tion, severance allowances, paid holidays and limitations on work hours (especially for teenagers) has met with often intensive opposition from the colony's business oligarchy.

A recent survey made by the

Christian Industrial Committee discovered that the new laws were "being met only halfheartedly" in many factories. Unless employers follow the laws, the committee announced, results of their continuing surveys would be made avail-

able to international trade organizations and overseas buyers—and guilty employers would be publicly named.

The committee's main target is the garment industry, where 84 percent of the 300,000 workers are women.

Economists now believe that the growing shortage of workers will do much to correct the sweat-shop conditions as workers use their own laissez-faire privileges to switch jobs to factories offering better pay and working conditions. A slump is expected in the numbers of working-age persons entering the labor force over the next four to five years.

—H.E.

## Top Support for Social Welfare

By Kevin Sinclair

HONG KONG (IHT) — If anyone had bothered to ask 10 years ago what social welfare benefits were available in Hong Kong, the answer would have been simple: virtually none.

Today, the answers are a lot more complicated.

By the standards of welfare in Western Europe, Hong Kong offers meager benefits to its less fortunate citizens.

But compared with a decade ago, when most people were expected to depend on their own resources in the colony's flourishing and sometimes ferocious laissez-faire economy, social services have come a long way.

In the past, the principal beneficiaries of social largess were victims of typhoons, fires and the other natural disasters that visit Hong Kong frequently. They could expect to get emergency housing, dry rations of food and blankets if they suddenly found themselves homeless.

Today, the expanding social services provide for old-age and disability benefits and help for the unemployed, a very tiny group in Hong Kong's booming industrial economy.

The payments, by Western standards, are low.

But the money goes further in Hong Kong than in any Western society, and beneficiaries receive other help from the public purse in the way of rent assistance. Persons who need special diets receive aid, and those who have been on public assistance for two years get special cash payments to help them replace household goods such as stoves and refrigerators.

A single person on public assistance gets \$45 a month. For families, the first three eligible members get \$30 each, with graduated payments for remaining family members and dependents.

Old-age benefits, which begin at 70, provide \$23 a month.

These figures have to be taken in context. In Chinese society, grandparents almost invariably live with their families whose duty—and honor—it is to care for them in their old age.

Almost all payments are non-contributory. Very few of those who receive benefits have ever paid any taxes in Hong Kong, not even the 15-percent maximum salaries tax.

At the beginning of this year, almost 50,000 people were on the public assistance rolls. In the finan-

cial year 1976-77, the government paid \$50 million in benefits.

Other progress has been made in the fields of rehabilitation of the handicapped, family welfare services and community work, mostly centered in the huge and sprawling high-rise public housing projects in

which more than half of Hong Kong's population lives.

Gov. Sir Murray MacLehose supports plans to expand social welfare further. No fewer than four separate policy papers have recently been introduced, aimed at providing more help to those in need.

## Chinese, Officials Stress Education

HONG KONG (IHT) — The Chinese traditionally place great emphasis on education.

So does the Hong Kong government.

Every third person in Hong Kong goes to school—most of them to primary (574,800) or secondary schools (402,300)—with an increasing number attending institutes of higher education. The colony has the prestigious University of Hong Kong (3,939 students), the Chinese University of Hong Kong (4,247) and a host of other private institutes.

In addition, more than 22,500 students attend classes at the Hong Kong Polytechnic. This new experiment in education for Hong Kong is aimed at turning out the designers, technicians, engineers and mechanics who will keep the wheels of local industry turning in the future.

This year, the government plans

to spend \$415 million on education, ranging from the 786 kindergartens for 171,000 three- to six-year olds up to the universities.

## Complex

Education is compulsory and free up to the age of 14. In two years, the age limit will be raised to 15.

One of the problems facing educators in Hong Kong is the complexity of the written Chinese language. Just learning enough characters to read a simple newspaper story takes years of memorizing the shapes and strokes that make up the scores of thousands of different characters.

Not that English is forgotten. Students in Hong Kong schools learn English either as the main or second language.

Hong Kong's four major technical schools, excluding the Polytechnic, offer a staggering variety of courses: aeronautical engineering,

optics, industrial design, electronic engineering, footwear technology, shipbuilding, plastics, building and civil engineering, printing and textiles. They reflect the needs of Hong Kong industry and are designed to provide the skilled manpower that industry will need in the future.

Educational television plays a large role in Hong Kong classrooms, and the Education Department has plans to increase it even more, with specially designed programs to teach technical subjects.

## Change

For years, some foreign teachers in Hong Kong have been complaining about the narrow view of education taken by their local students. This may be changing.

A few months ago, 400 girl students at a Catholic high school, the Precious Blood Golden Jubilee School, began sit-in demonstrations

there and at the home of the Catholic bishop of Hong Kong.

They were supporting 16 of their teachers, basically in an argument over whether experimental, questioning methods in the classroom should replace the old system.

Passions rose when the students began demonstrating in the streets and quickly gained support from other student groups, especially when they claimed—and subsequently proved in court—that their headmistress was pocketing public funds and putting them into a bank account of her Catholic teaching order.

Now the school has been split and the dissident teachers and most of the students have been given their own school to run and attend. There are worried officials in the Hong Kong educational system who fear that this small example of pupil power may encourage other students to challenge the system. —K.S.

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## A Flood of News and Official Views

**HONG KONG (HTT)** — Last March, an American newspaperman newly arrived here hurried to the airport where a hijack drama was developing. An attempt had been made to divert a Taiwan airliner to China, and shooting had broken out aboard the aircraft before it landed at Kai Tak Airport. Entering the terminal, the American saw a mob of more than 250 men and women trying to force their way into the airport's press room. "What's that?" he asked.

"The Hong Kong press," he was told. "You've got to be joking," the American said. "It looks more like the Golden Horde." He could be forgiven for his mistake. Seeing the Hong Kong press en masse in hot pursuit of a breaking news story can be a sight to inspire awe in the breast of the uninitiated. The sheer number alone is impressive. Hong Kong has more newspapers than almost any other

city in the world. At last count, according to official government statistics, there were 121 newspapers published in the colony.

### Dailies

Of these, about 71 are dailies. No definite figures can be given because many of the smaller Chinese-language dailies — called the Mosquito Press because of their nuisance value — regularly flourish, wither and die. A new one appeared last month with the ap-

propriate masthead of *Revealing Daily Post*. It carried a lift-out section containing full-color, full-frontal nudes.

But most of the press — both English and Chinese language — is more substantial. There are four English dailies: the English-style *South China Morning Post*, the American-style *Hong Kong Standard*, the bouncy afternoon tabloid *The Star*, and the regional business daily, the *Asian Wall Street Journal*. The *Journal*, closely patterned on its mother edition in New York, has brought a new breadth to financial and commercial news coverage in East Asia.

The local Chinese press, even for those who read the language, is bewildering in its diversity. There are a dozen Communist or pro-Communist (Peking) dailies, about an equal number controlled by the Taiwan Nationalists and, in the middle, 30 or so substantial dailies battling for the bulk of circulation.

In addition to the local newspaper press, there are three TV channels and two radio stations (one commercial, one government-run) and numerous magazines.

To tell the press, both local and foreign, what the colony is doing, there is the Government Information Services. (GIS is also said to mean *God Is Speaking*).

The Information Services is eager to arrange interviews with senior officials to explain programs and policy in Gov. Sir Murray MacLehose's promised open government. While many newsmen would agree it is relatively easy to find out what is happening publicly, they find it often frustrating trying to discover what goes on behind the closed doors of the corridors of power.

Two months ago, Jack Spackman, an Australian-born reporter, quit on the air while conducting his morning radio talk-back show, complaining that government officials would not answer his questions so it was pointless for him to ask them.

Asked about Mr. Spackman's charges, a government official declined to comment.

—K.S.

## Making Kung Fu for Millions

By June Shapiro

**HONG KONG (HTT)** — Fifteen years ago, there was no such thing as a Chinese movie industry in Hong Kong. Today, Chinese kung fu and swordplay fighters are giving Hollywood the jitters by threatening to make the colony a new film production capital of the world. Collectively, film companies throughout Asia already constitute the world's biggest assembly line for moviemaking, turning out 1,990 films a year, almost five times the annual output of U.S. film producers.

The bulk of the booming audience consists of Asians who live on small islands and in remote areas where television has not yet made sizable inroads. There are also large audiences in cities like Hong Kong and Singapore for the adventure films and spectaculars, science fiction and period pieces. Artistic films are comparatively rare.

"Tang Shu Shuen, one of the few female independent directors, says, 'Hong Kong is an island and isolated politically. There is a dearth of activities, and movies are cheap.' The highest admission price is \$1.75."

### Fortune

Asian film men, without over-drawing their bank accounts, are suddenly making a fortune by keeping their eyes on the cash regis-

ter as a measure of public taste. The largest studio in Hong Kong showed a gross profit of \$7.6 million last year. A recent film that set box-office registers jumping was Michael and Samuel Hui's "The Private Eyes." This Cantonese comedy netted \$1.8 million in less than six weeks. In Hong Kong, a company may make 26 films a year and each one will earn at least \$200,000. Seldom will a film show a loss.

The man who is responsible for building up the Chinese movie empire is a former theater operator whose name is not only well known to every moviegoer in Hong Kong, but who has become a legend in the world's film industry. He is Sir Run Run Shaw, 70, who with his brother Runme has amassed vast interests in real estate, amusement parks and 143 theaters in Singapore, Malaysia and Hong Kong. Shaw Brothers turn out 44 pictures a year. The largest studio in Hong Kong is theirs. Sir Run Run — he was knighted last year — is responsible for the tremendous success and advancement in Hong Kong moviemaking. He trained his own technicians and brought in experts from all over the world to help him. He established a school for training actors and sent trainees off to other parts of the world to learn the art of filmmaking. Today, he has an almost complete Chinese staff, plus a few Japanese cameramen and occasionally foreign directors. Movie Town also has its school

for aspiring actors and actresses, many of whom live rent-free in dormitories or self-contained apartments. There are 140 actors and actresses and 18 directors and each is assured at least two films a year.

### Movie Town

"In the old days," Sir Run Run explains, "nobody thought of sex. The Chinese actors were pale, passive and poetic. The Chinese actresses would never kiss actors on the screen. Of course, now they get stuck together. We can't get them apart. And suddenly Chinese men like to see a blond blue-eyed woman nude. We have to import these women from Sweden or Germany. We make three versions of the same movie — one version for the United States, Japan and Europe, a cold version with bodies all covered for Singapore, Malaysia and Taiwan, and a medium version for Hong Kong."

The cost of a production is never very large. The average Shaw production, which takes 40 to 50 days at most to film, cost \$300,000. His latest success, "Emperor Chen Lung," grossed almost \$500,000 in Hong Kong alone. Directors are paid anywhere from \$5,000 to \$12,000 and the successful ones get a share of the profits. First-rate film stars, male or female, make anywhere between \$10,000 and \$15,000 a picture.

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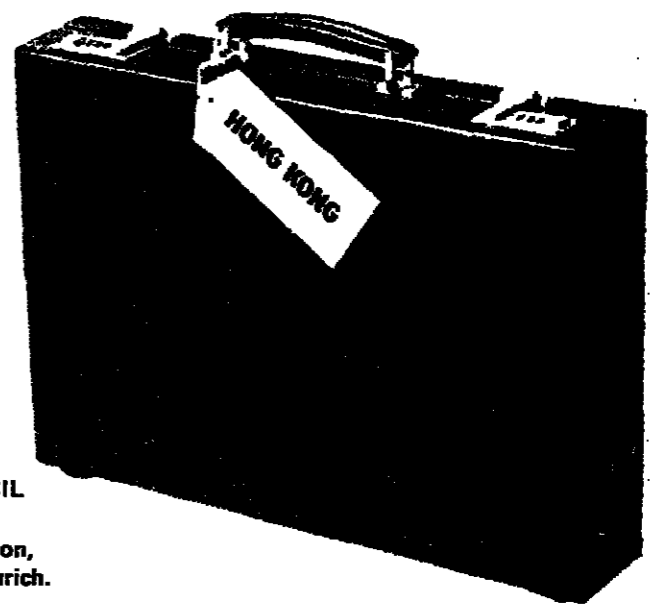
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# Impressions From a Borrowed Place on Borrowed Time

By Richard Hughes

**HONG KONG (IHT)** — Still a borrowed place living on borrowed time, Hong Kong marches ahead with unchanged assurance, continuing production and trade expansion, improving education, housing and social welfare programs and the best-ever relations with Peking.

It persists because it is part of China and because it affects no suicidal pretense of democracy or independence. Despite notable internal shifts and reforms in the past decade, its foundation and policies — like its maximum income tax of 15 percent — remain unchanged.

Colony, laissez-faire and resilience, which were the three ancient cliché references to Hong Kong, have been discreetly pruned to one. Colony, now a dirty six-letter word, has gone with the rising east wind, to the gratification of London as well as Peking and the local government; laissez-faire is being skillfully and pragmatically "guided"; now it remains to be seen whether resilience will endure. The odds are heavily in favor.

Hong Kong, accustomed to tough going and uncontrollable external influences, is girded for the coming years of hard life, trade liberty and the pursuit of capital.

The eternal question mark that hangs over Hong Kong's future is the treaty for the lease of Hong Kong's New Territories, in which a new industrial Hong Kong is now springing up (with Peking's cooperation and investment). Technically, this treaty expires in 1997, when Britain would have to negotiate a new lease for the territories — nine-tenths of the colony's area — with-

out which the original colonial Hong Kong Island could not survive.

But Peking has declared that all "unequal treaties" were invalid and that it could legally, if forcibly, take over the New Territories at any time. At the United Nations in 1972, Peking refused to allow the case of Hong Kong to be submitted to the decolonization committee because Hong Kong was not a colony but sacred Chinese soil.

Peking is now buying and leasing that sacred Chinese soil. Current capitalist plans for property development and investment in Hong Kong and the New Territories are expected to total more than \$200 million. The expanding program is officially in the hands of the Kiu Kwong Corp., a Hong Kong-registered company with only four shareholders, two of whom live in Peking.

The Peking-resident shareholders are Tsai Ping, formerly top executive in the People's Bank of China in Hong Kong, and Sung Wenming, onetime general manager of the China Ming, an insurance corporation.

The two Hong Kong resident shareholders are Chuang Shih-ping, senior executive of the Bank of China and the Communist Nanyang Commercial Bank, and Cheong Chieh, who is also a senior executive of the Bank of China.

Liang Sien, an executive of the Kiu Kwong Corp., said last month that seven major projects were now necessary to meet China's "pressing need for office, commercial and residential premises in Hong Kong." These include a 25-story godown (warehouse), container and

cold-storage units for transshipping exports to Japan and homes in top-rental areas, which were once off-limits to all Chinese in Hong Kong's first years of existence.

The Kiu Kwong Corp. has now become financially involved in the Mass Transit Railway venture that is honeycombing Hong Kong and will build 4,000 apartments above one of its major railway stations.

Other Peking-owned agencies in Hong Kong — the People's Bank, China Resources, Kinchang Bank and China Products — have also invested in property for their expanding commercial operations. The general manager of China Resources has said that new residential and business sites must soon be purchased.

China's 13 banks here — which have more than 130 local branches — were urged last month to "raise bank earnings and implement more efficient cost control so as to contribute to the modernization programs."

Confirming this new trend, the chairman of the Hong Kong Federation of Stock Exchanges, Peter Chin, said: "It is logical that the Communist banks would be interested in the stock exchange market after their investment in property here."

For the first time in more than four years, Hong Kong's Communist firms suddenly in July raised wages 10 to 30 percent for an estimated 25,000 employees of party-controlled banks, shops, factories, publishing houses, gasoline stations and restaurants. The increase represented approximately the former average difference between Communist and non-Communist wages

in Hong Kong — although many of the workers for Communist firms receive substantial fringe benefits in rents, sales discounts and subsidized family holidays to China.

Chang Cheng, head of the Peking-controlled China Products Company and an executive of China Resources, had re-emphasized — of course, with Peking's endorsement — that China was not interested in altering Hong Kong's anachronistic status quo. By interesting coincidence, in the same month the European Economic Community, with British encouragement, dealt a blow to Hong Kong's vital textile export quotas. The coincidence invoked the detached judgment by most Hong Kong *taipans* (members of the foreign establishment), over pink pins in the halcyon Hong Kong Club, that Peking is friendlier and more helpful to Hong Kong today than London is.

In effect, Mr. Chang reiterated Peking's implicit assurances that China continues to accept Hong Kong's survival as a borrowed place living on borrowed time. He also pledged directly that China would continue "to ensure an adequate supply of goods, especially food products, to Hong Kong" and "would not take the initiative to raise prices."

"Unfolding before us in Hong Kong," says Chang Kuo-sin, an authority on China and an author, "is the strange phenomenon of what I call commercialized Communism. As elsewhere, Peking has now assumed the posture and reality of a hard-boiled and seasoned capitalist."

It has learned all the capitalist gimmicks in sales promotion, advertising, hire purchases (time payments), exhibitions and so on. It has mastered the art of watching market trends and adjusting prices on the basis of supply and demand.

A loyal party representative with a visiting fraternal delegation from Hong Kong is said to have once asked his banquet chairman in Peking, a high-ranking foreign ministry official, for a forecast of Hong Kong's future.

"We have not had time to think about it," the official replied. "Meantime, I advise you not to worry. Go back there and continue to do what all capitalists are expected to do: Make money for yourself and for us."

(That was a couple of years ago; but it would be just as true today. After all, Hong Kong, in simplified capitalist reckoning, channels about \$2 million each day into China.)

Hong Kong authorities — like the U.S. military intelligence sources here — are satisfied that Deputy Premier Teng Hsiao-ping's resurrection ensures even closer ties with Canton and Kwangtung Province.

## Unique Kind of Chinese Evolving

**HONG KONG (IHT)** — The Hong Kong Chinese — 98 per cent of the population — are strangely apolitical and seem to be becoming more so everyday. They fled China by the hundreds of

thousands in 1949 and 1950, rushing to escape the horrors of the Communist takeover. In the 1950s they were staunchly anti-Communist, but the influence of Communist movements was steadily growing in the colony.

The eruption of 1967 — when thousands of leftists marched in the streets waving little red books of Mao quotations and clashing with police — died as suddenly as it exploded. Today, Hong Kong's populace seems committed to non-interference.

Have the Chinese become apathetic about their fate?

### Realism

Hardly. But they appear to have adopted a new kind of realism that engenders a faith in the future of Hong Kong and ignores such temporary fears as forced integration with the mainland or the continuing evidences of mercantile oligarchy.

"After all, we are Chinese too," explained one top business leader, T. K. Ann. "What are they going to do? Shoot us all?"

A new generation of Hong Kong citizens is rising out of the slum-towns of the past, alive to the Westernizing trends that are evolving them into a unique kind of Chinese.

Traditional dress is seldom seen nowadays except on older men and women. Young Chinese men sport flared trousers and sports shirts. Young women ignore the puritanism of the mainland for the latest Western hair styles. Attractively patterned dresses and tight jeans astonish newly arrived compatriots from across the border, where Mao Tse-tung decreed, "Girls must work hard and not decorate themselves."

Some observers say the Hong Kong Chinese consume with *Veblenian* conspicuousness. After all, there are more Rolls-Royces sold here than in any other country, and more French brandy is consumed here than in the United States.

But such a view is misleading. Hong Kong's young Chinese strive

for skills and knowledge with a dedication that would shame most Western youngsters. There appears to be a growing confidence that Hong Kong is not only wealthier than most other Asian places but also technologically more advanced and culturally more progressive.

The Hong Kong Chinese have a rising middle class composed of young executives and skilled technicians. For example, Allen Lee, appointed to the Legislative Council last month, heads the colony's most successful electronics company.

The question now is not whether China will take over Hong Kong, but whether Hong Kong may be developing as a microcosm of the China of the future. The prevalent attitude is now that "we can handle the future when it comes."

## Flow of Refugees

(Continued from Page 1)

it made any such deal with the Chinese.

Word spread rapidly inside China and the number of freedom swimmers dropped. Only 800 were caught last year, compared to 7,200 who were picked up in 1974.

What is happening to the understanding this year? Colony officials have no ready answer. The relaxed atmosphere inside China may have simply meant local administrative officers are now more willing to get paperwork completed. Issuing exit visas is a procedure done at the district level, and a process not easily turned off when tens of thousands of people have applied and are waiting.

### Not Typical

The immigrants are not typical refugees. Upon arrival in Hong Kong, they are swiftly absorbed, seldom even asking directions from policemen at the railroad station. Colony officials admit that they constitute no significant problem for social welfare services. However, they point out that the colony

can scarcely absorb 60,000 or 70,000 additional citizens — even if most of the working age (16-35). Whitehall is again taking up the matter with the Chinese ambassador.

Only a few of the freedom swimmers seek political sanctuary, and officials doubt that politics now has much to do with their wild swims to the bright lights of Hong Kong. "Most of them come from just across the border," explained one official. "They come for the adventure, the hope. This is the Big City for these rural lads."

If Hong Kong is a dreamland of hopes from the blandness of rural Kwangtung Province, attaining the dream can be a costly adventure. Chu Chin-chung, a 25-year-old swimmer, was attacked by sharks at midnight in the waters of Mirs Bay in June. Badly mangled, he bled to death before the Marine Police could get him to a hospital. His companion of 22-hour-old Lai Chi-wing was sent back to China without seeing the neon lights of Hong Kong.

## Changing East-West Roles

(Continued from Page 1)

der conditions of realpolitik is not as simple as it may sound. China does not want to see any governmental or political development that might lead to establishing a sense of independence for Hong Kong. Government spokesmen scrupulously avoid discussions of democracy or political development for the colony.

A narrow franchise allows election of half of the 24 members of an Urban Council with limited authority over recreation, urban services, hygiene and street hawkers. But membership in the important executive and legislative councils is decided solely by nomination of the governor, with London's approval.

Sir Murray has expanded the number of dissent voices in the councils, permitting a far broader range of public opinion to be heard on issues than previously. He has also encouraged the formation of mutual aid committees and other mechanisms to serve as pipelines for public opinion. Such moves have made him perhaps the most popular and progressive governor in the colony's history.

In a bold move against organized corruption, Sir Murray in 1974 named an independent commission against corruption, headed by a career colonial official, Jack Cater. Mr. Cater vowed to "wipe out syndicated corruption by the end of 1978." High-ranking British police officers were caught with their hands in the public's pockets. Revelations of the extent of graft and bribery shocked even hardened Hong Kong citizens.

The wholesale drive against

wrongdoing hurt morale on the Royal Hong Kong Police Force. Creation of an independent and heavy-handed graft-busting agency was likened by some to a new *gestapo*. Emotions boiled over in late 1977 with mass demonstrations by policemen at their headquarters and a near riot at the offices of the anti-corruption agency.

In what many saw as backing down, the governor issued a partial amnesty for corruption crimes committed in the past. The fruits of that amnesty came last month when witnesses in a key case against officers of the corrupt Mongkok district turned against the prosecution. Mr. Cater is now being charged. Mr. Cater is now stepping up to the position of chief secretary of the colony. His place on the corruption commission will be taken by Sir Donald Liddington, present head of the Public Services Commission.

Mr. Cater feels, according to sources close to him, that the task of cleansing corruption from the police force has been completed. But many citizens are dubious that this once-bold effort has achieved — or is likely now to achieve — lasting effects.

Outspoken critics of government policy continue to hammer away. Elsie Elliott, who operates a school for Chinese children, and D. L. Ding, of the Christian Industrial Council, continually harp at bureaucratic callousness, cover-ups and shortcomings. Mrs. Elliott recently told a group of Chinese boat dwellers that the government "is turning a deaf ear to your grievance

(about public housing) because they can't sell the sea. But if the government wants to build a railway bridge over your head, they will rehouse you right away."

Such snipes arouse in bureaucrats and city government in London among some Labor members of Parliament who see Hong Kong's efforts at social welfare as too little and too slow.

Such jibes, however, have not seriously impeded the government, which continues to plan and program without organized political opposition. Its efforts have been more applauded than condemned.

A small core of ideologically motivated youths in Trotskyite and Marxist groups has sought to raise protests, which are supported by neither the Chinese Communists nor British liberals. Radical demonstrations in Victoria Park usually draw more reporters than listeners.

Realpolitik means that the governor will continue to rule with a free hand so long as he does not violate the sensitivities of China, and China will permit the British wide latitude in that governing.

In the recession of 1974 leftist labor unions kept cool, refusing to strike or demand greater benefits. Labor peace has been a key element in Hong Kong's stable industrial growth during the 1970s, and that peace is maintained by instructions from across the border.

"I think the government is doing quite a splendid job," declared a leading leftist who had joined in the 1967 riots to wave his little red book of Mao's quotations. "There is much that China can learn here."

Realpolitik makes strange bedfellows — and colonies.



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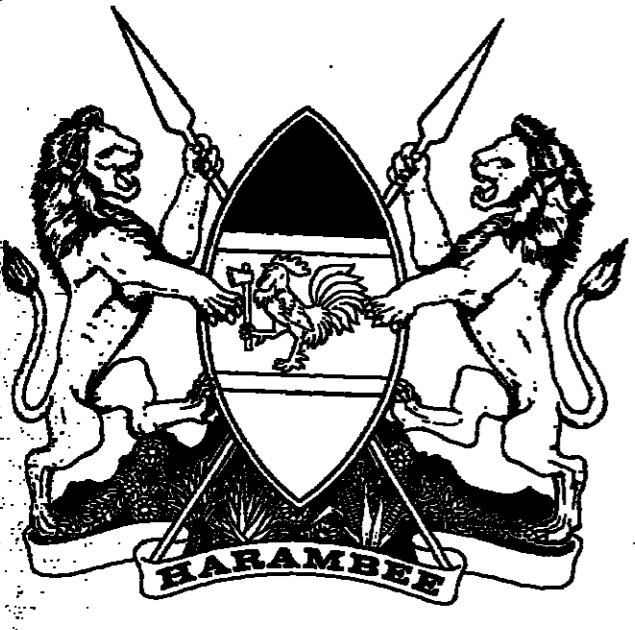
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## A Special Report



INTERNATIONAL

**Herald Tribune**

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# KENYA—1978

## Mapping the Future After a President's Death

### Party Pledges Its Support For Kenyatta's Deputy

By Michael Parrott

NAIROBI (IHT) — When delegates from the Kenya African National Union (KANU) assemble in Nairobi in early October, they will effectively be choosing the man to succeed Jomo Kenyatta as the country's new president. Under the constitution, only candidates supported by a political party are eligible for the post. Since KANU has been the country's only political party since the banning of the radical Kenya People's Union (KPU) in 1969, its candidate will automatically become the new president.

KANU's choice is already known. Within days of Mr. Kenyatta's funeral, KANU branches throughout the country had pledged their support for Interim President Daniel Arap Moi in an impressive show of national solidarity. Mr. Moi's adoption by the delegates is now nothing but a formality.

The party's support for Mr. Moi is understandable. Vice president of the country since 1966, this former schoolmaster from the Rift Valley has regularly deputized for Mr. Kenyatta. One of the first Africans to be elected to parliament before independence, his experience of the Kenyan political scene is unrivaled. As a Kalenjin he will be able to reassure the smaller tribes without threatening the dominant Kikuyu. In alliance with Attorney General Charles Njonjo and Finance Minister Mwar Kibaki, the 54-year old Mr. Moi was already firmly in the saddle.

Not everybody expected such a smooth transition. Indeed, the succession issue has been one of the uncertainties affecting Kenya's post-independence development. Already in his 70s when he assumed leadership of the country, Mr. Kenyatta never gave any indication as to who should follow him. Speculation was rife as to whether the successor would come from the president's own tribe — the Kikuyu — or from another group. And if a Kikuyu, would the successor come from the president's family, or from his native district of Kiambu?

#### Alliance

During the 1960s when the country's two largest tribes, the Kikuyu and the Luo, were allied, there seemed a strong chance that a Luo would be selected. Initially Oginga Odinga, the country's first vice president, seemed well-placed, but he was soon eclipsed by his brilliant rival, Tom Mboya. When Mr. Mboya was assassinated in 1969, the Luo influence declined, and the banning of Mr. Odinga's breakaway KPU seemed to leave the field open to the Kikuyu. Mr. Kenyatta's first cousin, personal

physician and foreign minister Njoroge Mungai from the Kiambu district, was regarded as the front-runner, but in the 1974 general elections Dr. Mungai lost his seat and as a result his Cabinet post. In the following year deep divisions developed within the Kikuyu following the assassination of a popular Kikuyu politician from the rival Nyeri district, Josiah Karuri. It was probably at this point that Mr. Kenyatta's non-Kikuyu deputy emerged as the leading contender.

For the Kiambu Kikuyu there was a lot at stake. Under Mr. Kenyatta, they had filled the key posts in the Cabinet, the civil service, the army, the paramilitary and the intelligence agency. They were in danger of losing this control if the presidency passed to a non-Kikuyu like Mr. Moi. It was for this reason, many observers feel, that from the end of 1976 a group of Kiambu Kikuyu took a series of initiatives in support of Dr. Mungai. First this group — which is thought to have included Minister of State Mboya Koinange, Defense Minister James Gichuru and several members of the Kenyatta family, such as the industrialists Ngunjiri Mungai and Idi Geshaga — tried to revive the old Kikuyu-Luo alliance by making overtures to Mr. Odinga's followers. It then put up a constitutional amendment that in the event of Mr. Kenyatta's death would have given the interim presidency to a non-politician rather than to the vice president. Finally it tried to gain control of the key posts in a revived KANU. But Mr. Kenyatta himself blocked any coalition with Mr. Odinga, the amendment was declared unconstitutional by Mr. Moi's ally, Mr. Njonjo, and the KANU elections were called off at the last moment just when defeat for the Mungai group seemed inevitable.

The unexpected death of Mr. Kenyatta last month left the Kiambu challengers at a disadvantage. Not only did the constitution immediately confer the acting presidency on Mr. Moi, but it also barred Dr. Mungai from the succession under a clause limiting candidature to elected members of parliament. There was also little evidence that the group would have won support from the Kikuyu as a whole. For Mr. Moi's backing is more than tribal. His closest collaborators are Kikuyu — Mr. Njonjo from Kiambu and Mr. Kibaki from Nyeri. As a key member of government he has learned to work with the Kikuyus in the administration and can presumably count on the loyalty of many of them. In the Cabinet he could outnumber Mr. Mungai's supporters by nearly three to one.

It is not yet clear whether some deal was reached between the two camps or whether the challengers merely recognized that they had no chance. Some indication may be given in the formation of the next Cabinet. But with general elections due next year, at which the president must be re-elected, Mr. Moi will have little time to consolidate his position. He has already shown great respect to the Kenyatta family, promised to follow Mr. Kenyatta's policies and given assurances that there will be no major changes in the short term.

(Continued on Page 4)

### Economy Facing Hard Options As Coffee Boom Ends

NAIROBI (IHT) — For almost three years now, Kenya has been living in the unreal world of a boom in tea and coffee. Already in 1975 the economy expanded 6.1 percent as coffee exports tripled in the last year the doubling of tea and tea receipts brought the country's fastest growth for nine years at 7.3 percent. After the first year of the boom, current accounts since 1974, Kenya's foreign exchange reserves reached a record high of \$600 million.

The boom has brought a massive spending spree by the government and the private sector. Money supply at the end of March this year was 60 percent on the same period last year. Government spending rose 50 percent instead of the 25 percent planned, with much of the increase going into arms purchases. The private sector borrowed \$1.2 billion in 1977, but it could not be satisfied despite a 33 percent increase in manufacturing output and a 30 percent rise in exports, and inflation intensi-

fy. The boom was an important booster after the lean years of 1975 when increased imports, a drought and depressed international commodity prices had led to a 3.7 percent fall in the Kenyan shilling. In the trade deficit tripled to \$360 million and growth fell to 3.7 percent; the following year the deficit was still \$300 million and growth was down to only 3.7 percent. International organizations such as the World Bank began to express their alarm at the pace of the boom.

The boom is petering out. Income looks like it will fall in 1978. Prices are rising. In the first quarter of this year a 10 percent increase in the cost of living was recorded. The government's 1978 budget deficit of \$200 to \$300 million compared with a surplus of some \$280 million last year. It is already talk of another intervention. The manufacturing sector is still growing at around 10 percent, but activity is expected to slow as private credit expansion at 18 percent and the coffee boom begins to be felt. Kenya is back where it started.

#### Coffee and Tea

The cyclic nature of the Kenyan economy, while affected by price changes in its imports, is due primarily to its heavy reliance on coffee and tea exports. Coffee can account for anything from 20 to 50 percent of the country's export proceeds and tea from 10 to 20 percent. This makes life difficult for Kenyan planners. When the 1975 Five-Year Plan was revised before the oil crisis, the government projected a GDP growth of 6.8 percent compared to the 6.0 percent achieved since independence. It was projected to increase 10.2 percent in 1977, but it grew only 1.2 percent. In 1975 GDP grew only 1.2 percent, and the manufacturing sector barely increased. It is therefore the more remarkable that 1978 not yet completed, the economy may actually be growing 5 percent or so.

The economic situation is changing so dramatically from year to year, little importance should be attached to the 6.0 percent growth in GDP and 10.2 percent growth in manufacturing for the 1979-83 plan. Significant are the policy options behind the plan and the speed of their being implemented.

In some years international organizations such as the World Bank and International Labor Organization (ILO) have been expressing concern in which the economy is developing. There is a balance-

of-payments trend and the growing gap between the haves and have-nots. Parallels have even been drawn between Kenya and some Latin American countries.

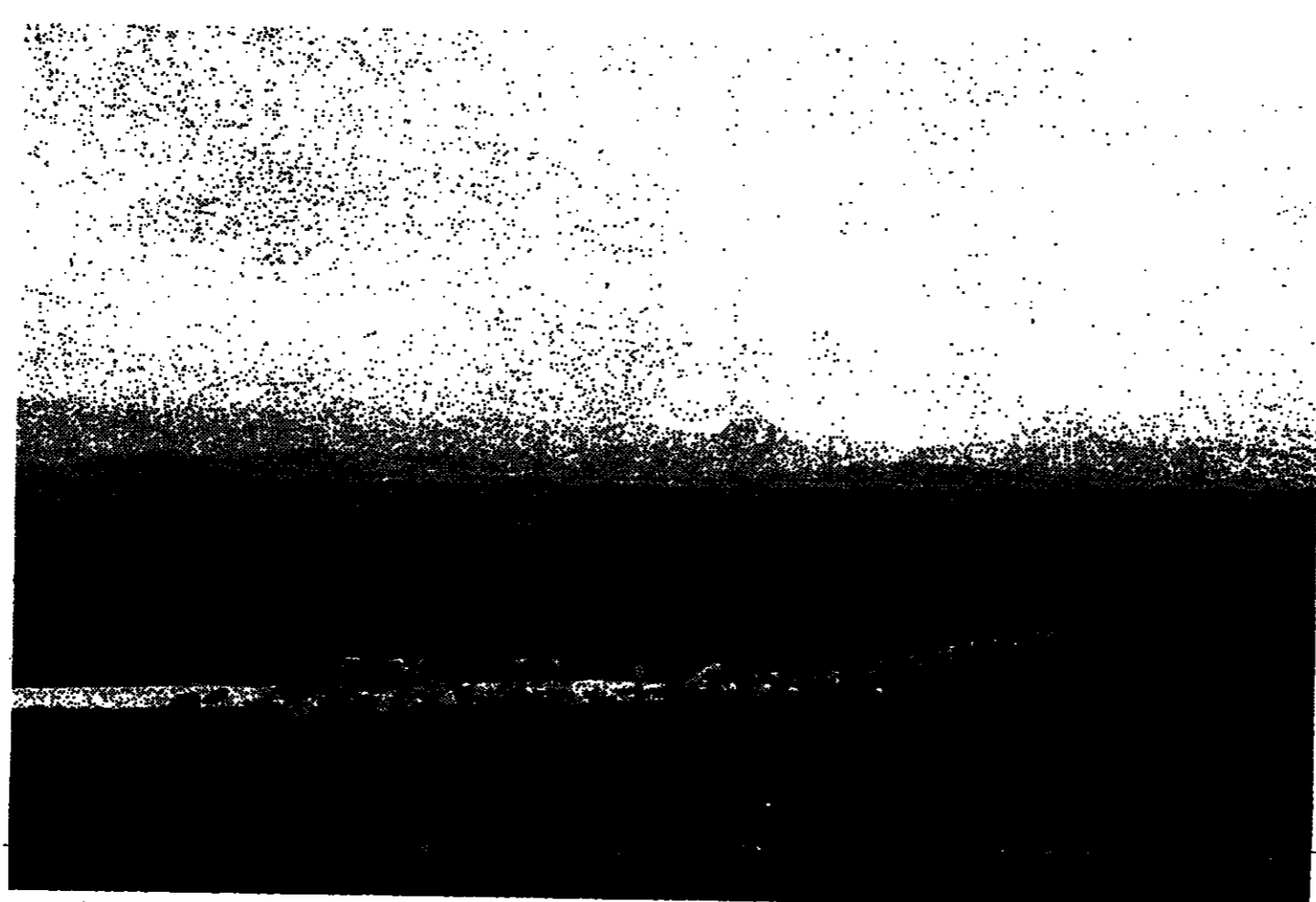
According to the ILO, Kenya is still living under an economic and social structure inherited from colonial days. A formal sector (constituting regular wage employment) utilizing relatively few people caters to the needs of a middle-income elite, while a separate informal sector (fringe businesses) supplies simpler and cheaper goods for the mass of the population. Not only is the formal sector limited by its small market, but it is also dependent on imports. The answer, says the ILO, is to encourage the informal sector, redistribute wealth to the poorer classes and force industry to cater to the national market as a whole.

The World Bank is more concerned with growing balance-of-payments constraints and the possibility that the government might be forced to impose tougher import curbs and reduce growth. Its economists advocate development of industries based on Kenya's agricultural resources, a move from import substitution with high tariffs towards export-oriented industries with subsidies and the encouragement of small farmers and industries.

To increase earnings for farmers and encourage manufacturing exports, the World Bank advocates devaluation; to encourage labor-intensive investments as opposed to capital-intensive ones, it urges higher interest rates. The theme of the World Bank report is the need for the most efficient utilization of resources if the economy is to maintain high growth, increase employment and assure rising incomes to a fast expanding population.

The Kenyan government is aware of these problems. In a speech at the beginning of this year Finance Minister Mwar Kibaki pointed out that Kenya had only succeeded in its economic development because its policy goals had been relatively inexpensive and easy to achieve. Now, he said, it would have to face more difficult objectives.

What Mr. Kibaki called the "soft options" of the past were the "Kenyanization" of the public sector. (Continued on Page 5)



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## Counting the Animals for Conservation

MASAI MARA (IHT) — One of Kenya's most valuable assets is its wildlife. Other African countries such as Tanzania, Zambia and Zaire may boast greater numbers, but it is Kenya that has always been regarded as the safari center. Not only are its rangelands well adapted to animal viewing, but there is a developed infrastructure of national parks, game lodges and roads. Despite the popularity of beach holidays, Kenya's major draw to tourists is still its animal life.

It is therefore with considerable concern that animal lovers have watched the steady decline in the country's wildlife population. Not only is it becoming increasingly rare to find animals outside the parks, but even within them the populations of certain species have been falling dramatically. For example, the number of black rhinoceros is believed to have dropped from 12,000 to 1,800 in the last

eight years and the number of elephants from 167,000 to 65,000 in the last four.

The decline in wildlife can be attributed to the steady expansion of human settlement, the seven-year drought that ended only last year and the activities of the poacher. But as long as no accurate figures were available on the country's animal population, it was difficult to assess how serious the situation actually was.

It was therefore quite a breakthrough when the Ministry of Tourism and Wildlife started a series of aerial surveys of the country's rangelands in an attempt to count Kenya's wildlife population. In a project sponsored by the Canadian government, the Kenya Rangeland Ecological Monitoring Unit (KREMU) recently completed a census of 20 different species on the basis of a 2.2-percent sample from the rangeland area. Another

survey is now being carried out on the basis of a 5-percent sample.

With the help of Cessna 185s flying 300 feet above ground, the KREMU team uses the naked eye and photographic equipment to count the animals below. Excluded from the survey, however, are lion, cheetah and leopard, which can hide in the grass, and the wildlife living in forest areas. The value of the surveys may lie not so much in the exact figures they come up with, but with the changes they will reveal in populations from one year to the next.

#### Numbers

According to the survey, Kenya has some 60,000 elephants, 13,000 Grevy's zebra, 147,000 Burchell's zebra, 1,800 black rhinoceros, 37,000 warthog, 79,000 giraffe, 63,000 African buffalo, 41,000 eland, 17,000 lesser kudu, 64,000 oryx, 22,000 waterbuck, 36,000 har-

tebeest, 87,000 topi, 2,385 Hunter's hartebeest, 148,000 wildebeest, 49,000 reedbuck, 146,000 impala, 236,000 Grant's gazelle, 164,000 Thomson's gazelle and 32,000 ostrich. Among domestic animals there were seven million sheep and goats, four million cattle, 603,000 camels and 135,000 donkeys.

The first survey showed that of the total animal population of 1.4 million deduced from the sample, gazelle alone accounted for 400,000 and zebra, wildebeest and impala for some 150,000 apiece. The biggest concentration of animals was in the southwest, which covers Masai Mara and Amboseli, with over 650,000 animals. The northeast and north central areas followed with 175,000 and 165,000 respectively. All these figures should be treated with the greatest caution, at least until they can be compared with those from the second survey.

(Continued on Page 4)

## Essay: A Success Story That No One Wants to Spoil

NAIROBI (IHT) — Fifteen years after its independence, Kenya stands out as a success story in African development. While so many of its neighbors have been plagued by internal strife, ideological fanaticism and/or dictatorial rule, Kenya has remained stable, pragmatic and relatively free. The transfer of power to the Africans has been a remarkably smooth one. Tribal rivalries have diminished as a new African "establishment" has been created. Business has flourished in a free enterprise system in which foreign investment and state participation have each played their roles. In a political system in which Western institutions have been adapted to African conditions, the record on human rights has been impressive.

Kenya's common sense approach has not gone unrewarded. It is no coincidence that this country is one of the major recipients of international aid, that more foreign investments are being made here than before independence and that Nairobi is emerging as an international business, conference and tourism center. An island of sanity in a troubled continent, Kenya has overcome its lack of oil and mineral resources to become one of the fastest growing economies in black Africa.

Much of the credit for all this must go to the man who led the country during these 15 crucial years — Jomo Kenyatta. For it was only a man of his De Gaulle-like stature who could have steered the young country through tribal

#### Peaceful Transition

Yet when Mr. Kenyatta died last month in his late eighties, the transition could not have been more peaceful. Within hours Vice President Daniel Arap Moi had been sworn in as interim president with the full support of the Cabinet. Calm reigned throughout the country as Kenyattas mourned "the father of the nation." The funeral, attended by national leaders from all over the world, was remarkable for the dignified and orderly manner in which it was conducted. No sooner had Oct. 6 been set as the date when the Kenya National African Union (KANU), the country's only political party, would designate Mr. Kenyatta's successor, than pledges of support for the interim president poured in from all over the country, making it clear that Mr. Moi would become the coun-



Daniel Arap Moi

try's next president. It was as if the whole country wished to close ranks in this hour of danger.

To some observers, this peaceful transfer of power came as no

surprise. They attributed Kenya's stability not so much to Mr. Kenyatta himself, but to the system he had created. Most of Kenya's politicians had such vested interests

in the system that they dared not "rock the boat." It was argued, for some years now, Mr. Moi and his colleagues had been carrying out the day-to-day running of the country with the full backing of the president. By electing him, the Kenyan establishment would maintain continuity and avoid tribal division.

But if it looks like the transfer of power will be a smooth one, Mr. Kenyatta's death nevertheless marks a turning point for this young nation of 14 million people. A new political situation has arisen just as the country is reaching a new stage in its economic development.

#### A Brother

Since independence, Kenya's political institutions have been progressively modified as Mr. Kenyatta established himself as the unchallenged leader of the country. Under constitutional amendments the original regional framework was dropped and the senate abolished. More important was the development of a one-party system through the absorption of the rival Kenya African Democratic Union (KADU) and the later banning of the radical Kenya People's Union (KPU), the diminishing role of parliament and the decline of KANU as a political force.

As long as Mr. Kenyatta was alive it seemed only natural that the country should be run by the president himself with the assistance of ministers and civil servants. News-

papers were allowed considerable freedom of expression, parliamentarians could criticize government policies, grass-root feeling could be expressed at constituency level, but executive powers were firmly in the hands of the president. Now that it looks like a less dominant personality will be assuming the presidential office — at only 54 Mr. Moi is seen more as a brother than a father — there is likely to be growing pressure to revive the powers of party and parliament. Whereas Mr. Kenyatta ruled like a wise African chief, government under the new president may turn out to be much more collegial in its character.

Mr. Kenyatta's death also coincides with a turning point in the Kenyan economy. Since independence the country has been able to satisfy the aspirations of the farmers by giving them land and of the middle class by offering them positions in politics, the civil service, commerce and industry. Most of the farms owned by Europeans have now been distributed, few vacancies are available in public life and the days of easy profits in commerce and industry may be coming to an end. With the population expected to double by the turn of the century and with 250,000 job hunters coming onto the market each year, the country must start developing more marginal agricultural land and intensify its industrialization programs.

The need for a new approach has been apparent for some years, but the recent boom in coffee/tea prices (Continued on Page 4)

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### How in the world are the majority of the Banks in Kenya fighting rising costs with NCR computer systems?



## Small Farms Make a Large Economic Contribution

By Guy Arnold

NAIROBI (IHT) — Agriculture is the basis of the Kenyan economy. Upon its performance depend most other sectors.

In 1977 agriculture's contribution to the country's GDP was 38.3 percent, or \$1.1 billion, a 5.4-percent increase from the previous year. The increase was due almost entirely to the increased production of tea and coffee and the record prices they fetched on world markets. The output of other major crops such as wheat, pyrethrum (chrysanthemum plants used as a base for insecticides) and sisal (for the manufacture of twine) was disappointing although sugar, milk and maize did well.

A comparison of the economic contribution of large farms and smallholders' farms points to the achievements made in resettling, training and assisting small farmers since independence, especially in the last decade. During the five year period 1973-1977 the gross marketed production from both large and small farms in cash terms rose from \$329 million in 1973 to the 1977 level of \$1.1 billion. However, the percentage share of these figures for the small farmers was: 51.3 percent in 1973; 50.6 percent in 1974; 55.6 percent in 1975; 51.2 percent in 1976 and 50.7 percent in 1977.

The small farmers' contribution to the economy is in fact far greater than these figures would indicate since roughly 50 percent of total production is retained on the small-holding for family consumption. Generally the small farmer sells his surplus potatoes, tomatoes and livestock as well as maize, beans and cabbages to local traders rather than to marketing boards.

Kenya now produces virtually all its food requirements as well as certain major crops for export. Thus, money that otherwise might go to the purchase of food imports is given over to other developments in the commercial and industrial sectors.

There are exceptions and weak spots. Wheat demand, for example, has risen dramatically in recent years. Production does not meet the annual demand of roughly 200,000 tons and substantial imports have to be made. Again, although some major increases in domestic sugar production have been



Kenyan farm family.

achieved (in 1977 there was a record delivery of 1.9 million tons of cane to the factories) it will only be after the establishment of two more sugar factories, now in an advanced stage of planning, that Kenya should be able to satisfy its white sugar requirements.

In horticulture, Kenya has established itself as a major supplier to certain European markets. In 1977 the nation exported more than 18,843 tons of horticultural products, which brought export earnings of \$17.1 million. Britain was the largest market, taking 44 percent of the total, while new markets were established in the Middle East, Djibouti and Sweden. Restrictions in the European Economic Community, however, are one difficulty to be overcome. Another problem is inadequate airspace for fast shipping.

Because 1977 was such a bumper year for coffee and tea, the letdown

with this year's lower world prices could be substantial. This year's coffee crop at 75,000 tons is 25 percent down from last year; the massive earnings from tea and coffee last year — \$761.8 million — had an impact that went right through the economy.

Increasing attention is being focused on what in the long run is

the most serious agricultural problem of all: the fact that only about 20 percent of the total land area is of good or medium agricultural potential. With the population nearing the 15 million mark and a birthrate of 3.5 percent per annum, there are greater strains on land resources. This pressure can be partly met by irrigation and other

major development programs, but they are costly and often the returns are hardly commensurate with the outlay.

There is also the issue of the remaining large-scale farms and plantations — some 3,200 of them. In contrast, there are some 400,000 landless people in Kenya, and many more are living on marginal

land in urgent need of help. Should the large farms be up for resettlement purposes if this were done, how much problem would be solved?

Few other countries in the world have such a high level of coffee and sisal production, although there has been declining during the last few years. There is also a future seems less than level of cotton production maintained at around 16,000 tons in 1973 although increased in 1977 may, with better prices, encourage small plant more so that a yield may be achieved.

There are now well that more students war for agricultural and careers: Enrollment in courses at the University of Nairobi this year has increased in agriculture and 101 in medicine. There is also in the number of agricultural institutions.

Irrigation is crucial in new areas under cultivation are a number of major with World Bank or inputs, among them the of the Tana River which, when complete able to irrigate up to 100,000 acres.

Today the agricultural Kenya is a healthy one, urgent need for more thought given to the long-term plan. In addition, the an increasing population met by cultivating land that is arid or unproductive. To these problems will be increased difficult and expensive.

### Communication and Transportation

## Now Everything Must Stop at the Border

By Godfrey Morrison

NAIROBI (IHT) — Kenya's communications have never been as bad as those in many Third World countries, where telephones often do not work, roads become impassable for much of the year, vehicles cannot operate because of lack of spare parts, and air services are suddenly cancelled without notice or explanation.

The relatively good performance in Kenya is partly due to the above-average rail and road system the country inherited from the British. But it is also due to the fact that Kenya's leaders recognized the importance of infrastructure to a country whose prosperity depends on a highly diversified and far-flung agriculture and on tourism, and they responded to the political and economic imperatives of development.

Until January of last year the governments of Kenya, Tanzania, and Uganda (and the British before them) considered the whole of East

Africa as a region in communication terms and they shared postal and telecommunications services, railways and port facilities. The breakdown of the East African Community has meant that now each country must deal with communications at a national level, making important readjustments.

The closure by the Tanzanians of their border with Kenya damaged the economies of both countries. For Kenya it has meant not only the loss of a two-way trade with Tanzania that netted more than \$26.7 million in Kenya's favor, it also meant the loss of profitable exports to Zambia, whose trade passed overland through Tanzania.

### Diverted

These developments would have had disastrous effects on Kenya's road transport industry but for the coffee boom, which allowed the surplus carrying capacity to be diverted to the job of moving the exports and imports of landlocked Uganda and Rwanda.

The Kenya Railways Corp., which was also hit by the community's collapse and suffered a shortage of carrying capacity and spare parts, has now embarked on a major capital expenditure program that includes the purchase of 87 new locomotives to be delivered this year and next, and the complete replacement of steam power by diesel.

The country's vital port is at Mombasa, which has to serve not only Kenya's export-import needs, but also much of Uganda's. As a result, it has suffered some congestion problems.

Mombasa's importance has increased with the opening by African Marine (a company jointly owned by the Kenyan government and the Inchcape Group) of East Africa's only dry-dock facilities.

Kenya has been particularly hard hit by the oil price rises because its agriculture-based economy is so dependent on large-scale road transport. So another very important development was the opening earlier

this year of a pipeline linking Mombasa's oil refinery with Nairobi. The new pipeline, which will probably be extended westward, not just a good economic proposition in itself, but it will also free carrying capacity on the hard pressed road and rail links between the capital and the coast.

Since Nairobi was the telecommunications hub of the East African Community, it suffered some loss of business as a result of the community's collapse.

However, despite this, the rapid expansion of the Kenyan economy has meant that there have been continuous increases in traffic right up to this year.

Local telephone services are erratic, although not nearly as unreliable as in most African capitals. One of the most bizarre results of the growth in demand and the piecemeal addition of new equipment manufactured in different countries is that a caller will hear a wide variety of dialing and ringing tones according to the area of the city he is calling.

### Air Transport

The most dramatic recent developments in communications have been in air transport.

In March Nairobi's new international airport was opened. The largest and best equipped in black Africa, it is hoped that its runway, capacity and aprons (capable of accommodating 10 jumbo jets or 11 Boeing 707s at one time) will meet Nairobi's needs until the 1990s.

Costing \$67 million, the new airport would be a hard investment to justify in most African countries. But in Kenya, where the most important single export earner is tourism (gross receipts by the industry were \$112 million in 1976), a good case can be made.

The new facilities should enable Nairobi to maintain and develop its position as the civilian aviation hub of Africa.

### Setback

Another development in the country's civil aviation program has, however, produced an at least temporary setback to tourism traffic in the capital. This is the upgrading of the airport at Mombasa on Kenya's coast so that it can handle wide-bodied jets.

Together with the closure of the Tanzanian border and the tilt in tourist preferences away from up-country safaris in favor of vacations on the coast, this has proved a severe blow to the Nairobi hotel industry.

Previously, international tourists headed for the coast would arrive in Nairobi where they would spend one or two days before catching a local flight to Mombasa or Malindi, returning to Nairobi at the end of their stay.

The loss of this traffic has been one of the causes of the falling occupancy rates in the capital's hotels. However, this has halted the rise in room rates in Nairobi and recently prices have been cut.

This could well mean that hotel charges will remain static (or fall in real terms) over the next few years which will help the Kenyan capital in its fight for an increased share of the highly competitive international conference and convention market.

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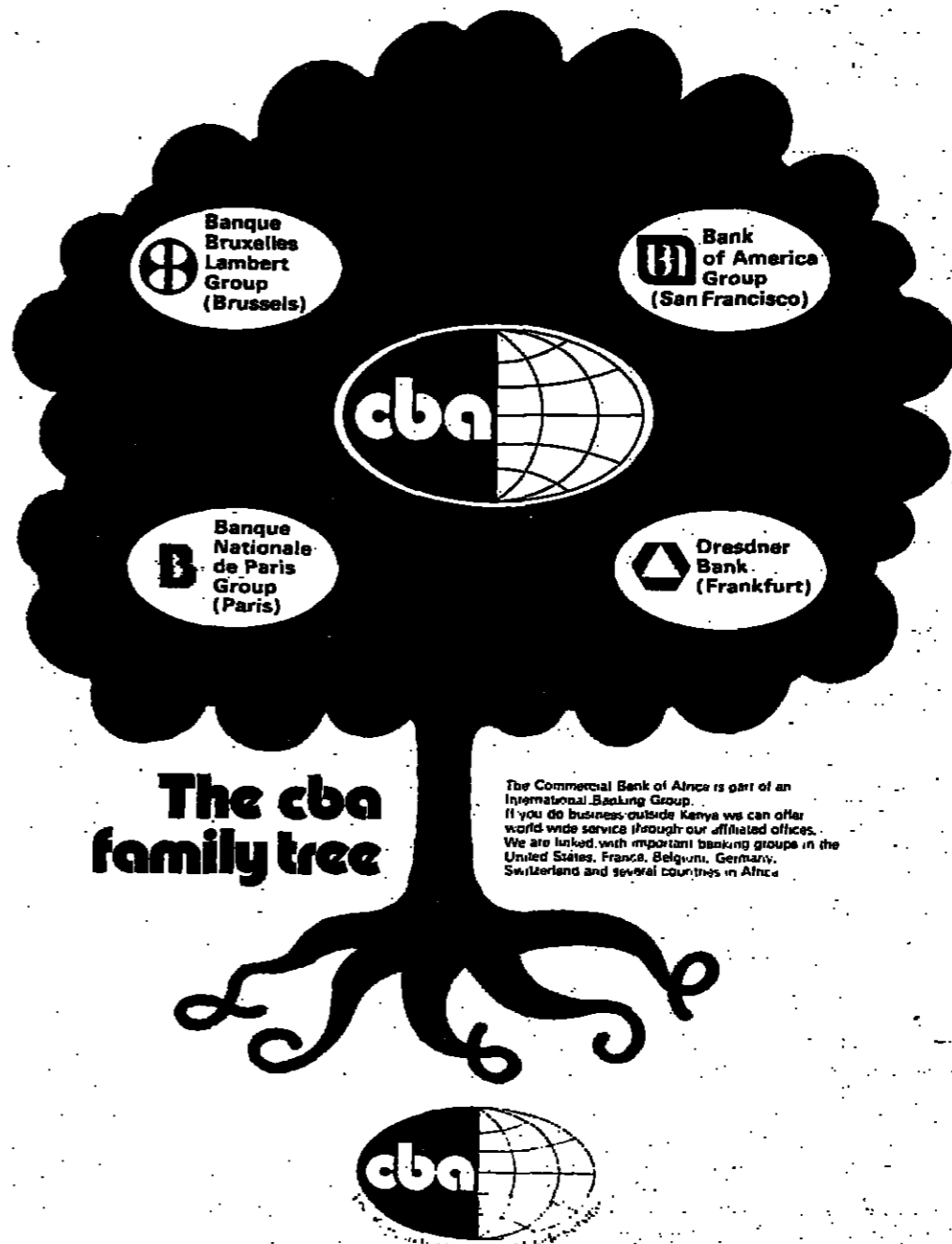
This dramatic change was spear-headed by Orient Paper Mills—Asia's major paper producer—which is under the

management of the Birla Group of Industries, one of India's largest industrial complexes. Orient have provided the management and technical know-how in this K£21 million investment project.

In line with its policy of progressing towards economic independence, Kenya continues to encourage plans to develop its natural resources and is now working closely with Orient in a major expansion of the pulp and paper operation.



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## Mutual Tolerance Is Setting the Pace for the Races

By Victoria Brittain

**NAIROBI (IHT)** — Kenya's most crucial constitutional moment after the death of President Jomo Kenyatta was the swearing in of the new president, Daniel Arap Moi. In the Cabinet Room of the capital's State House the ministers, all black, stood as the Chief Justice Sir James Wicks, in ceremonial British-type robes, entered to administer the oath. Sir James, like most senior members of the Kenyan judiciary, is white.

The pragmatic use of non-Africans, whether or not they are Kenyan citizens, is one of the keys to Kenya's prosperity and stability. Humphrey Slade, a lawyer and one of the first whites to opt for Kenyan citizenship at independence, was speaker of parliament from 1960 to 1970. "One of the reasons I was valued as speaker was, I think, because as a European I was detached from their tribal rows and pressures. In fact, I hardly understood some of them," he says.

At the time of the last census in 1969 there were 139,000 Asians and 40,000 Europeans in Kenya in a population of 13 million. Since then the population has grown at an annual rate of 3.5 percent, with the racial mix probably remaining the same. Although the African and Asian birthrates are higher than the European, new short-contract expatriate families have followed the international companies that have made increasingly heavy investments in Kenya, as well as the international aid funds. (The head of the expatriate family must have a work permit — of which there are about 18,000. Work permits are issued only for jobs no Kenyan can do.)

### 'European' Shops

Today in Nairobi when you see an expensively dressed African woman step out of a Mercedes into a shop full of Italian imports where the assistant who helps her is white, it is hard to remember, as one now-prosperous African businessman does, that as a young man he was turned away from "European" shops.

"We had apartheid all right," says a British woman who is a long-time settler. "But we'll never have a Congo-type situation here," she adds. "As long as the Cabinet has people like Mr. Kibaki and Mr. Njonjo who are just like us, I shall

stay. Why go back to England, which is full of disgusting socialists and no one has house servants or even proper gardeners any more?"

"Mr. Kenyatta was a very broad-minded man," says Mr. Slade who, like most Europeans and Asians, attributes the absence of racial hostility to very strong personal direc-

tion given by the president and vice president, the late Tom Mboya.

The racial harmony of the country is based on mutual tolerance rather than a mingling of the races, and there are some spheres of life which have, by tacit agreement, remained or become, the preserve of one race.

In Nairobi, for example, where by far the greatest number of Europeans and Asians live, a complete racial mix among the middle class in shops, offices, restaurants and schools can be seen. But it is a mix only in public. The 36,000 white expatriates on short-term contracts usually remain detached from

Kenyan society. The 4,000 white Kenyans form a rather self-contained society. Asians almost exclusively entertain each other. Non-Africans in the rest of the country are usually missionaries or teachers. There is also a sharply dwindling number of European settler farmers. Of the 3,500 European-

owned farms at independence, only about 30 are left. Many beyond this hard-core wanted to stay and took Kenyan citizenship in order to do so. But pressure from the African population has grown, and the Africans' intense desire to own land has pushed all but the most determined into giving up to African farmers. "Land is the one area where a white Kenyan is not the equal of a black one," says one expatriate.

Half the Asians in Kenya are Kenyan citizens and half are British or Indian. They run the commercial life of the country and the sons train as doctors or lawyers. Kenyan Asians show no desire to enter the competition for land or for political power, and there are no Asian members of parliament. "It would be too ambitious for an Asian or a European to be in politics," says one successful Asian businessman. However the Asian businessmen do not feel excluded from power. "We have all the access to ministers we need — we know them, they know us."

An Asian surgeon, Yusuf Kodwawala, thinks that "the sensitive period is over — all three races have lost the chips on their shoulders and Europeans and Asians could well start coming back to the political forum." One European did run in the last election and nearly won.

Mr. Slade thinks that within a generation all government posts will be reserved for Kenyans of all three races, but that it has yet to be tested whether a European will be welcome in a top government post where he is visible. "Europeans are just not going for those sorts of jobs because the pay does not compare with the private sector," he explains.

But in other areas, such as sports, Kenya has impressively multi-racial representation. At the African Games at Algiers and the Commonwealth Games at Edmonton this summer, Kenya's athletes included Asians and Europeans, and the team was the most multi-racial present.

Nothing sums up Nairobi's multi-racial atmosphere as well as a Sunday afternoon at the race course. Black and white jockeys, Indian owners and British lady trainers eye the horses while the black and white crowd loses money to the Indian bookmakers.

## Lively Press Tackles Controversial Issues

**NAIROBI (IHT)** — One of the many intriguing questions about the government that will follow that of Jomo Kenyatta is whether it will continue the relatively liberal policies adopted towards the local and international press.

In almost all black African countries the local press is directly owned and controlled by the government or ruling political party, with the result that it acts as the mouthpiece of those people, civilian or military, who happen to be in power.

In such cases, the press is unable to perform some of those functions that in the West are seen as most essential. Another consequence is that most newspapers in black Africa make very boring reading. In Kenya the government has shown remarkable restraint in its dealings with the press. The fact that the country now enjoys what are probably the farthest ranging and highest quality newspapers and magazines in black Africa is also due to the emergence of a number of outstanding local journalists. In addition, the country's prosperity has meant that these publications have earned reasonable advertising revenue, which has not been confined to government sources.

The two English-language dailies, the Daily Nation and the Standard, last year had a combined average daily sale of more than 118,000, up from less than 98,000 three years ago. Readership is estimated at about four times that figure. Both of these lively and well-produced tabloids are independently owned, the Standard by Lonrho while the Nation group of publications is jointly owned by the Aga Khan and local private shareholders.

The Nation group also produces a Swahili-language daily, Taifa Leo, whose circulation is more or less static around the 32,000 mark. Total circulation of the miscella-

neous Swahili weeklies has fallen, a result of the closure of the border with Tanzania, where they found a profitable market.

### Letters

One of the most striking features of the Nation and the Standard is the readers' letters page. Here all manner of grievances and topics are raised, from complaints about the state of the roads to conflicting views on the Middle East.

Perhaps the most interesting as-

pect is that there is genuine debate in the newspapers about the kind of society Kenya should develop. Laissez-faire capitalists join in written battle with orthodox Marxists. In most African countries such a situation would not be permitted.

The weekly and monthly press is also lively. The women's magazine Viva is outstanding, reflecting the growing importance of women in public life and their widening interests. It also does not shrink from treating controversial subjects: Recent issues have carried features on

such topics as the frightful poverty of many Kenyans and a national argument over traditional female circumcision.

One of the people who has contributed most to Kenyan journalism is Hilary Ngweni, whose Weekly Review is probably the finest and most outspoken weekly news and political comment magazine on the continent.

Mr. Ngweni has received well-deserved international recognition for his services to the development of African journalism. The development of his magazine and his Sunday newspaper, the Nairobi Times, came from hard work and strong nerves. At times, in his exposures of the country's internal politics, he must have trodden very close to the limits of what the government would permit.

For the press freedoms that the country enjoys are, as elsewhere, relative. In Mr. Kenyatta's era there was never any direct criticism of "Mzee" himself, although the actions and statements of his ministers were sometimes fair game.

### International Press

The relatively liberal atmosphere has been one of the reasons the international press have made the city their headquarters for black Africa.

The principal international news agencies and foreign radio services are represented here; and those Western newspapers that have a staff man in black Africa usually choose the Kenyan capital as the base of operations.

Nairobi has many advantages. The climate is good. There is no censorship of outgoing news, communication by telephone and telex are excellent thanks to a satellite earth station, and Nairobi airport can claim to be a sort of "Grand Central" of the continent's air services.

— G.M.

## New Self-Help Program For Technical Training

**NAIROBI (IHT)** — Kenya has made impressive achievements in education over the last few years. According to a survey conducted in 1976, a total of 66 percent of the male population and 31 percent of the female population now have reading ability in one language. In 1977, there were 2.5 million primary school children from 6 to 12 years of age, some 319,982 secondary school students and 5,283 students at the University of Nairobi. There are 102,000 teachers, of whom 76 percent will be Kenyans by 1979.

While Kenyan university graduates have no trouble finding jobs — the vice chancellor of the University of Nairobi estimates that only a small percentage do not find jobs at once — Kenya's manpower needs are more acute at the intermediate skill level. Increasingly the country is producing the top skills it needs, but, for example, one engineer requires a back-up of five technicians, and it is often at this level that there remains a desperate shortage of trained people.

As a consequence, one of the most interesting developments in Kenyan education is that of the Harambee (self-help) system, which includes more than 700 schools catering to 30,000 pupils as well as the new Harambee technical institutions. The latter offer two-to-three-year courses in skills such as carpentry, plumbing, masonry and electricity. The first of these, the Kiambu Institute of Technology, graduated its first students in 1976, and the others will soon be graduating their first classes. The success of the Harambee could have a substantial impact on the future pattern of Kenyan education.

— G.A.

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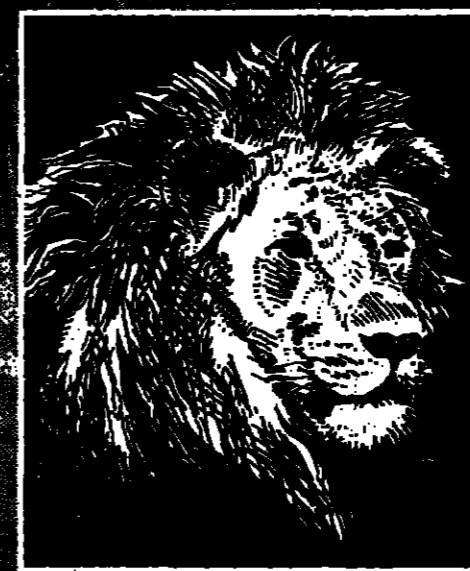
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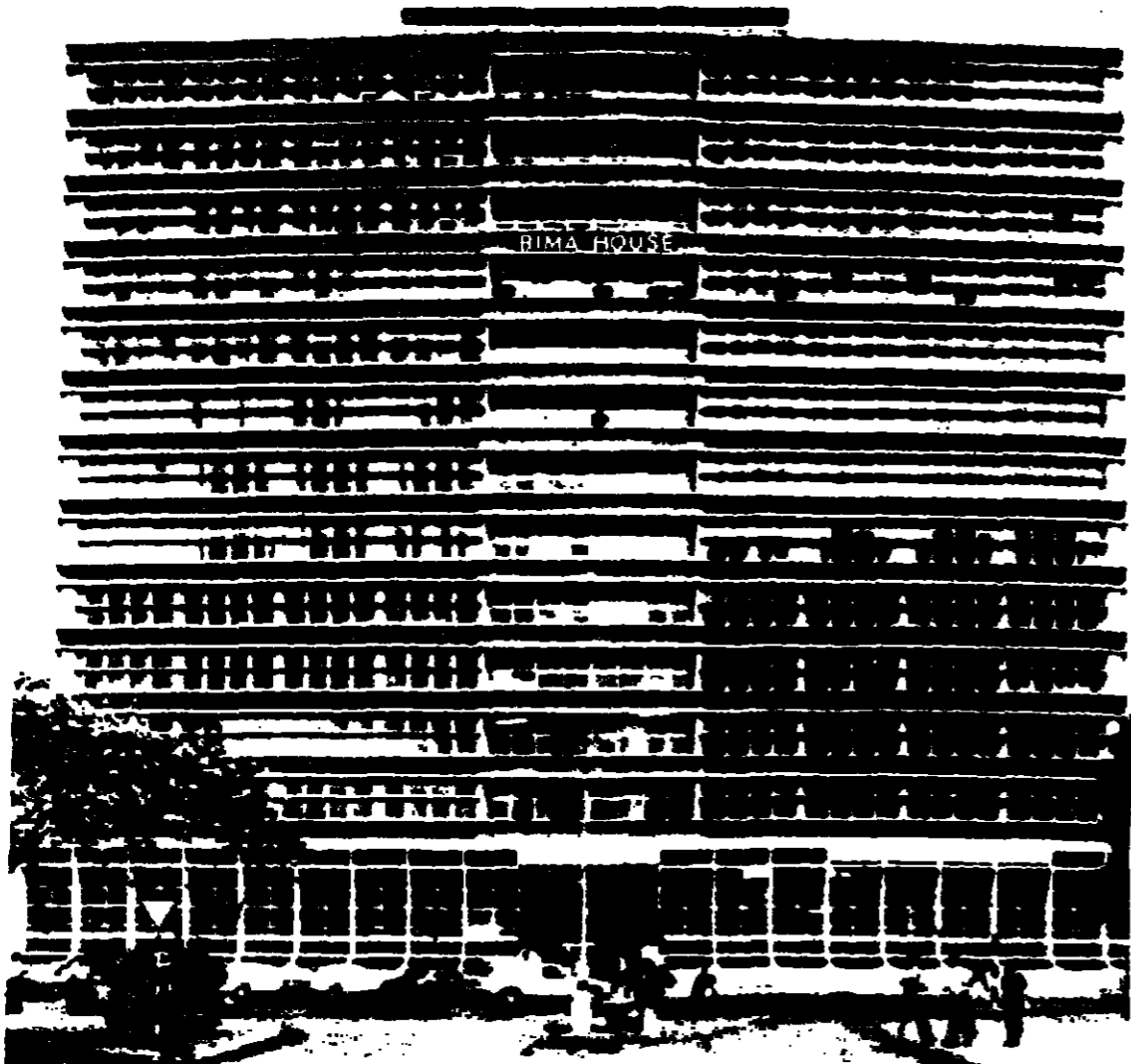
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## Where One Can Watch Wildebeest From a Balloon

**MOMBASA (IHT)** — With a two-week package from Europe now costing as little as \$600 for a beach vacation and \$1,000 for a full safari (without game hunting), it is hardly surprising that Kenya has become a favorite among the long-distance travel destinations.

The tourist to Kenya has the various possibilities of watching the wildebeest migration from a balloon in the Masai Mara, relaxing in the magnificent setting of Mount Kenya Safari Lodge, roughing it on a camel safari in the arid north, taking a dhow to the island of Lamu, snorkeling amid the coral of the Indian Ocean or just tanning in the tropical sunshine.

Cheaper than the Caribbean or the Seychelles, more varied than Thailand or the Canaries, Kenya attracted some 350,000 business and holiday visitors last year who brought in \$120 million of valuable foreign exchange.

The development of Kenya's tourist industry has been impressive. At independence the country still relied essentially on local traffic and the wealthier safari travelers from the United States and Britain. At that time the country had fewer than 6,000 hotel beds, mostly in Nairobi or up-country. With the development of mass tourism in the 1960s, local tour operators were quick to see the potential offered by the country's wildlife. But the real explosion came after 1969 with the development of the beach vacation. Between 1967 and 1972 the number of business and holiday visitors soared from 140,000 to nearly 400,000.

Ever since, Kenya tourism has been in trouble. It was not until 1976 that traffic recovered from the increased air fares resulting from the oil crisis and the fall in world demand accompanying the recession. Then, just as things looked like they might pick up, a whole series of developments hit the country's safari and business tourism. There were the troubles in Uganda and the Horn of Africa, the closure of the border with Tanzania, the government's ban on hunting, the fall in Atlantic air fares, which made other fares comparatively more expensive, and the depreciation of the dollar. Between 1976 and 1977 the number of vacation and business visitors fell 18 percent to 344,000. (If visitors from Uganda and Tanzania are excluded, the fall was 6.5 percent.)

The situation does not look quite so bad however, when judged by the number of bed-nights spent by tourists and the foreign exchange earnings of the industry. Despite all the problems, nights spent by tourists in Kenya have risen steadily from 2.7 million in 1973 to 3.8 million last year, and income has increased by between \$10 and \$17 million annually. The trend seems to be continuing with another 6 percent increase in bed-nights during the first half of 1978. But the growth has come in beach vacations, not safari and conference tourism.

A closer look at bed-night figures shows how the stagnation in safari

and conference traffic has hit Nairobi hotels. Whereas bed-nights in the beach hotels have more than doubled since 1973 to reach 1.5 million, those in the top class hotels in Nairobi have remained virtually unchanged at 550,000.

Since 1965, the capacity in the Kenyan capital has risen to 7,800 beds from 2,700, while that of the up-country hotels has increased from 1,900 to 3,790. In the same period the capacity of beach hotels has jumped from 930 to 6,700 and that of game lodges from 290 to 1,600. While beach hotels have increased their share of bed-nights from 16 to 40 percent since 1965, the share of bed-nights in Nairobi has remained unchanged at 37 percent.

Now that Nairobi has acquired a magnificent new airport and the local Intercontinental has been expanded, the hoped-for visitors are just not coming. Some of the responsibility goes to the breakup of the East African Community and to the lack of any major conferences recently at the Kenyatta Conference Center. In 1976 alone Nairobi hosted United and Unesco. The main reason, however, has been the shifting of the major part of charter traffic from Nairobi to Mombasa and the fall in U.S. and British vacationers.

The U.S. tourist has always been enthusiastic about safaris. His geography may not be good, however, and he may be confused by reports of fighting in the Ogaden region of Ethiopia, or the activities of Uganda's Gen. Idi Amin, which often bear Nairobi datelines. The British, too, who are traditionally great safari enthusiasts, are beginning to find the costs a little high.

It is still almost impossible to get into some game lodges, but stays in Nairobi are kept to a minimum. Meanwhile, nothing seems to stop the growth of the coastal traffic. Costing half as much as a safari package, although still offering the possibility of inland excursions, the beaches are attracting increasing numbers of Germans, Swiss and Scandinavians. Now that Mombasa Airport can handle jumbo jets, tourists are being flown in 500 at a time.



A Cheetah.

The government is trying hard to stimulate inland tourism by opening up new circuits. Tourists who would normally have gone from Masai Mara into Tanzania can return via the tea plantations to Lake Victoria and Mount Elgon or, when the road is ready, move on to Amboseli Park overlooking Kilimanjaro.

The government is opening up a new northern circuit linking Nairobi with Muranga, Meru, Samburu

and Maralal and is examining a circuit from this central area to the coast along the Tana River. Camel safaris north of Marsabit and visits to Lake Turkana are being arranged. Tours are being organized with a greater stress on archeology, the African people, African culture or birdlife. Efforts are also being made to attract new tourists from the Middle East, Australia, Canada and Japan. The government would like to see lower air

## Animal-Count for Conservation

(Continued from Page 1)

Kenya's record on wildlife conservation has been a good one. Since independence it has greatly expanded the area of national parks, while hunting of game has been controlled under a licensing system and compensation is now given to farmers whose property is damaged by wild animals. However, when it comes to protecting certain species sought by poachers such as Grey's zebra, leopard, cheetah, elephant and rhino, it has been less effective.

Since the United States banned imports of skins of endangered species, poaching pressure on Grey's zebra, leopard and cheetah has eased a little; but elephant and rhino have become big business as the price of ivory and rhinoceros horn has soared. With Kenya emerging as a major African export center for smuggled ivory and horn, many conservationists have wondered whether the Kenyan government was really committed to stamping out poaching.

### Game Department

Some of the recent tensions between conservationists and government officials can be attributed to the decision two years ago to allow the autonomous national parks to be run by the government game department. Not only did the game department have a very different approach to wildlife problems than did the people in the national parks, as well as less experience, but the merger also resulted in many Europeans being stopped from working in the parks. Understandably some of these Europeans have been critical of the way the ministry is now handling things. The government in its turn feels that it is at last bringing some or-

ganization into the management of the country's wildlife. It strongly objects to the idea that only white people can be conservationists and is irritated at the interference of these foreign do-gooders.

There is little doubt that the ministry is suffering from certain teeth problems, but during the last 18 months it has adopted a much tougher line against poachers. Last year it banned all hunting in the country and made the carrying of hunting guns illegal. Since March the sale of all hunting trophies has been made illegal. With the help of World Bank funds it has been building up its anti-poaching

forces. These efforts are still being received with a certain skepticism, but with the help of the KREMU surveys it should soon be possible to evaluate the success of the ministry's new policies.

But what may prove to be an even more important event in the war against poaching is the recent decision of Hong Kong to refuse ivory and rhinoceros horn imports that are not accompanied by an official certificate of origin. Only by taking simultaneous action against poaching and smuggling is there any real chance of curbing the lucrative ivory and horn business.

## A Success Story That No One Wants to Spoil

(Continued from Page 1)

As has made action seem less urgent. In the meantime, however, the underlying problems have been aggravated by the breakup of the East African Community, the arms buildup necessitated by tensions on Kenya's border and the uncompetitive state of Kenyan industry on international markets. As imports soar, inflation intensifies and the gap in the balance of payments widens, more effective action is needed.

### Hurdles

The country's future stability will depend very much on how Mr. Moi overcomes these political and economic hurdles. With a general election due next year, in which he will be up for re-election, his opponents may yet make a bid for power. In

the longer term he may face more radical opposition as the gap between the haves and have-nots continues to widen. Widespread resentment at the way in which some politicians have enriched themselves, growing unemployment in the towns and hunger for land are all potential political time-bombs.

Kenya has been a success story. British settlers who left now wish they had stayed; resident capitalists are happy working here; and foreign visitors are struck by the efficient way the country is run and by the lack of racial tension. The Kenyan elite is enjoying new power and wealth, many farmers have realized their dreams of owning land and there has been a general increase in living standards. Nobody wants to spoil this.

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# Foreign Investment in Manufacturing Is a Mixed Blessing

**NAIROBI (HT)** — With no known oil or mineral reserves of any importance and a limited market, Kenya is not ideally placed to become an industrial power. Yet within the last 15 years the country's manufacturing sector has expanded so fast that its contribution to the economy is now as great as that of cash agriculture. In 1976 and 1977 Kenyan industry grew 18.5 and 15 percent respectively.

This expansion is due essentially to foreign investment. International companies still control the country's major tea estates. They have interests in ranching and some specific agricultural sectors, and they are strong in banking, tourism and commerce. Their main strength, however, lies in manufacturing and petroleum operations. When independence forced the Europeans off their farms and the Asians out of their businesses, any money not repatriated abroad went into industry. Once signs of political stability started to appear, foreign investors also started coming.

No official figures are available on foreign investment in Kenya, but British companies probably account for between \$400 and \$500 million of holdings, the United States for some \$200 million, West Germany for some \$60 million and Switzerland, France, India, Italy and Japan for \$100 million among them. Government officials believe 50 percent of the industrial sector is in foreign hands with the remainder divided between Kenyan Europeans and Asians, government investment groups and a few African businessmen.

According to economist Steven Langdon, multinationals dominate the footwear, leather, rubber, industrial chemicals, paint, soap, cement and metal subsectors in Kenya while resident-owned firms dominate food processing, beverages, textiles, wood-products and transport equipment. Even within this latter group of industries, multinationals dominate cigarette manufacturing, soft drinks, fruit canning, distilling, synthetic textiles and vehicle assembly.

## Pleasant Country

There are a number of factors that have encouraged foreign firms to invest in this country. Kenya's fine enterprise philosophy, its political stability, access to a wider African market, a well-developed infrastructure, inexpensive labor, the high return on investment possible in a heavily protected market, generous terms for repatriating profits and dividends, guarantees against confiscation of assets and the possibility of raising money locally either through domestic loans or by surrendering equity to government development institutions or private shareholders. Kenya also happens to be a very pleasant country to work in.

The government can offer foreign investors special tax benefits, exemption from sales tax, tariff protection, even a market monopoly. New industrial estates outside Nairobi and Mombasa such as Eldoret, Thika, Nakuru and Kisumu will make land and services available at attractive rates. Firms are expected to replace expatriate staff members with Kenyans and are advised to take on government or private shareholders as partners, but the pressures are less

**Foreign companies are criticized for concentrating on products that need imported equipment and raw materials instead of developing labor-intensive manufacturing based on local resources.**

than in many other African countries.

But what may be good for foreign investors is not necessarily good for Kenya. In recent years, foreign companies have been coming under a certain amount of criticism from Kenyan economists. Remittances from foreign firms now exceed the inflows of investment. Last year \$120 million in dividends flowed out of the country — the equivalent of the country's receipts from tourism — and another \$30 million went on servicing foreign loans. These figures do not account for royalty payments, management fees and the practice of over-invoicing imports. During the same period foreign investments totaled \$80 million, of which \$45 million were reinvestments of local profits. Last year was exceptional because industry profits were high and local borrowing facilities better than usual, but the trend is there.

Foreign companies are criticized for concentrating on products that need imported equipment and raw materials instead of developing

labor-intensive manufacturing based on local resources. Foreign exchange saved at the level of consumer goods imports is lost in the purchase of machinery and raw materials, it is claimed.

Perhaps the sharpest criticism is of the inefficiency of these foreign companies, which largely survive because of tariff protection. It is claimed that foreign firms only cater to a small, sophisticated market and they disregard the mass demand for simpler goods. Not only are these manufacturers uncompetitive on foreign markets, but they are making excessive profits at the expense of the consumer. Not prepared to think in more than the short-term, foreign companies prefer loan to equity financing and expect rapid returns on their investment.

Of course, it is recognized that the multinationals have also brought important benefits to Kenya. They have supplied technical know-how, management skills and industrial employment to what would otherwise have been an es-

entially agricultural community. Naturally, they concentrated on providing their customary products to the small market that could afford them. Industrialization usually starts with the import substitution of consumer goods. In a country that does pose a certain risk, it is normal for an investor to expect a quick return. Exactly the same approach is adopted by the local manufacturers.

But one cannot get away from the fact that consumer goods here are expensive, and Kenyan firms have made very little impact in export markets. Tariffs vary from 30 to 50 percent, but domestic prices may be three times European levels. Out of total exports last year of \$1.2 billion, all but \$420 million were raw materials. Of these \$210 million came from refined oil, \$150 million from the processing of raw materials and only \$40 million from consumer and capital goods. Apart from refined oil, the main manufactured exports were cement, canned pineapples, canned beef, pyrethrum extract, tanned hides and skins and insecticides.

In response to criticisms of Kenyan industry, the new plan calls for a switch from import substitution based on imported raw materials to export-oriented investments using local resources. Consumer goods industries are to lose some of their tariff protection and receive greater export incentives, while local manufacture of intermediates and light machinery is to be encouraged with tariff protection. In short, foreign investment is as welcome as ever, but its role is changing.

Of \$800 million due to be invested during the next five years in the manufacturing sector, some \$300 million is expected to go into the food, beverage and tobacco sector with sugar refining alone taking \$120 million. Chemicals and related products are expected to account for \$150 million, textiles for \$100 million, metal products for \$90 million, pulp and paper for \$60 million, and cement and basic metals for around \$35 million apiece.

## Heavy Investment

The last couple of years have seen heavy investment in textiles, sugar refining, brewing, commercial-vehicle assembly and an oil pipeline linking Mombasa with Nairobi. The three vehicle-assembly plants set up by B.L. Ltd. (formerly British Leyland), General Motors and a consortium headed by Lonrho with a capacity of 10,000 vehicles a year will initially rely on local industry for 30 percent of input, but will eventually use 50 percent. Projects in the works are a plant to make turf from maize cobs and a unit to turn molasses into power alcohol. A fertilizer project is running into major difficulties.

According to a study made by the Industrial Survey and Promotion Center at the Ministry of Commerce and Industry, there are investment possibilities in a whole range of processing sectors such as mushroom growing and processing, fruit and vegetable canning, leather, newsprint and furniture. In the industrial field the study singles out the manufacture of caustic soda from local soda ash, calcium carbide and PVC from local limestone, and low density polyethylene from

local sugar cane juice, not to speak of a sulfuric acid unit and a pesticide complex. More ambitious is the idea of a \$300 million mini-integrated steel plant using imported iron and coal from Swaziland and furnace oil from the Mombasa refinery and of a \$150 million cold-rolling mill and tinning plant. Only recently agreement was reached with an Indian group for the manufacture of machine tools in the country.

Traditionally, Kenyan manufacturers have relied on their African neighbors as their main export market. In 1976 Uganda, Tanzania and Zambia accounted for \$140 million of exports, even if \$65 million of them were for refined oil. Tanzania and Uganda alone took \$40 million of consumer and capital goods out of Kenya's total world exports of \$65 million. The loss of most of the Tanzanian market last year was more than made up for by increased exports to Uganda, but it is hardly healthy that 78 percent of Kenya's manufactured exports to Africa consist of petroleum products.

In recent months the Kenyan External Trade Authority (KETA) has been making significant efforts to find new markets for the country's products. In Africa it has been exploring possibilities in Zaïre, Rwanda, Sudan, Nigeria, Madagascar, Mauritius and the Seychelles. It is also looking further afield to the Middle East, Europe and the United States.

For the moment Kenya's main exporting successes are still limited to products such as canned pineapples, beer, canned mushrooms, textiles, pharmaceuticals, paper and leather, but some government officials hope that Kenya will one day become another Singapore or South Korea. They admit that Kenya does not have quite the same working tradition, that labor costs are higher and productivity lower, but they believe that the closer distance of Kenya to the European market would make up for

this cost differential. According to this thinking, Kenya could become a manufacturing basis for exports to Europe and the Middle East.

The government is already giving thought to the creation of export processing zones outside Nairobi and Mombasa. But it is not clear yet whether investors would be restricted to exports or whether they might be allowed to serve the domestic market at the same time — but without the duty-free advantages on raw material imports that their exports would enjoy. Either way, Kenya still has a long way to go before it can become an African Singapore.

— M.P.

## Economy Is Facing Hard Options

(Continued from Page 1)

tor, redistribution of formerly European-owned areas, attraction and protection of foreign-owned investment, the development of institutions to facilitate industrialization and urbanization, import substitution and the provision of basic education.

Now that these goals have been largely attained, Kenya has to face up to the hard options, such as the Kenyanization of the private sector, increasing agricultural productivity, reclamation and settlement of marginal land, development of rural infrastructure, expansion of agricultural credit and domestic marketing and distribution systems, diversification of industry, improvement of the manufacturing sector's export performance, increasing employment opportunities and a modification of the education system to provide the skills needed in a changing economic environment.

Many of these ideas have been incorporated into the fourth development plan, which is due to be published later this year. The central theme is alleviation of poverty through the creation of employment opportunities, especially in agriculture. The aim is to satisfy the basic needs of the population, be it health, education, water, shelter or food. With the good agricultural land now fully used, irrigation and an improved rural infrastructure are required if farming or ranching are to be possible in the semi-arid and arid parts of the country.

## Encourage Exports

In the industrial sector the government will encourage export industries based on the country's natural resources. Export subsidies will be raised, export houses established, insurance supplied to cover export risks and export processing zones created. Tariff protection on consumer goods will be reduced and that on intermediate and light engineering products raised. Foreign companies will be welcomed, but they will be expected to carry out more research and development in Kenya, decentralize their activities to rural urban centers and maximize employment opportunities. Special efforts will be made to encourage the informal sector and small labor-intensive industries. The planners assume an even greater reliance on the private sector than in the past, with the govern-

ment intervening only in certain basic sectors such as power, petroleum and fertilizers, or in priority areas such as chemicals, steel and engineering.

But it is one thing to lay down a plan and another to implement it. Many of these objectives have already appeared in earlier plans and little has been done about them. All

too often the hard options are not faced because there is no political will to face them. If vested interests have assured this country a certain stability, they have also contributed to a certain immobility. Thus Kenya's population continues to grow at 3.5 percent a year, the gap between rich and poor widens further and the consumer continues to

subsidize inefficient manufacturing units.

The new president is not going to make any revolution. But his new government, in which it is expected that Mr. Kibaki will play a key role, may actually implement what planners have long recognized as essential if the country's impressive development is to continue. — M.P.

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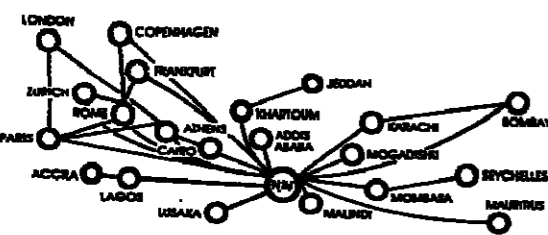


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## Trade Is Important Facet of Foreign Policy

NAIROBI (IHT) — Kenya has followed a middle-of-the-road, pragmatic foreign policy. It is non-aligned, a member of the Organization of African Unity (OAU), adhering to all its major policies, and it is a member of the Commonwealth. Its sympathies are clearly with the Western democracies. It is a mistake sometimes made in the West, however, to assume that because of this Kenya's policies can be taken for granted. They cannot.

Of the major powers, Britain is Kenya's foremost overseas partner. It comes first in terms of bilateral trade and is the biggest bilateral aid donor as well as having the highest amount of investment in Kenya. Generally the two countries enjoy an excellent relationship — despite, or perhaps because of, the traumatic confrontations of the 1950s during the dying days of colonialism. There have been clashes over subjects such as Rhodesia and there have been problems to solve, as over the position of the Asians entitled to British citizenship. Such questions, however, have never constituted more than normal interstate problems. In view of the past colonial relationship, such differences have been worked out with sensible dispatch and remarkably little fuss.

The United States, which only recently has begun seriously to work out just what policies it ought to pursue in Africa, has had a longer and more involved relationship with Kenya during the last two decades than with most other African countries. Kenya is seen as an important focal point for U.S. investment and as a regional trading center on the continent. In July, a joint loan of \$17.3 million was made by the Bank of America and the U.S. Export-Import Bank to the Kenya Fiber Corp. as part of the cost of a factory at Nanyuki for the manufacture of polyester fiber.

### Trade and Policy

The direction of trade is a powerful factor in Kenya's foreign policy, especially in relation to Britain, the United States and more generally the European Economic Community, as well as the African continent. Thus Kenya has a particular interest in a sound renegotiation of the 1975 Lome Convention — a process just getting underway in Brussels.

Of the EEC countries, West Germany has just agreed to make loans of \$6.9 million to Kenya for the improvement and modernization of Kenya's railways following the death of the East African Community. The loans are soft ones repayable over 30 years after a 10-year grace period. West Germany is now considering further financial assistance for a long-term program to modernize the railways.

Kenya's non-aligned stand means it is prepared to trade with and receive aid from any source, and relations with the Soviet Union and China and other Eastern countries are correct if not always enthusiastic.

Minister of Finance and Planning, Mwai Kibaki, has recently gone on record as saying that Kenya is not interested in blocs, either East or West, when it is borrowing money; rather, it talks to those countries willing to offer easy and long-term loans.

In a breakdown of sources of loans for Kenya development, the minister showed that currently 61.45 percent of loans comes from the West, 31.65 from the World Bank (Kenya is one of its biggest recipients), 4.4 percent from the East and 2.5 percent from other African and Middle East sources.

### Invited

At this year's OAU summit in Khartoum, which was sometimes split over bitter divisions about outside intervention in Africa, Daniel Arap Moi, then vice president and now interim president, made a typical Kenyan contribution when he said that if the big powers are now seen to be interfering and coming back into African affairs, it is because they are invited to do so by individual states. No one could disagree with such a statement, but many would have preferred that it had not been said.

At the same conference Kenyan Foreign Minister Muriyua Waiyaki reiterated total Kenyan support for the frontline states in the liberation struggles to the south. Kenya has firmly opposed any suggestion of a Pan-African military force along the lines advanced by France and Belgium. The Kenyan logic is that any such force emanating from Western support would inevitably invite a rival force to be formed by countries in receipt of Soviet or Cuban assistance.

Kenya has, however, come out strongly in favor of some form of OAU military machine to combat the white minority regimes in southern Africa.

Since the breakdown of the East African Community, the Kenyan-Tanzanian border remains closed. Recently there was a new eruption over Kenya's return to Tanzania of three ships that operate on Lake Victoria. After the return was agreed upon, a Tanzanian MF claimed that the ships needed repairs for which Kenya should be held responsible.

Kenya is vital to the economic life of Uganda since virtually all the latter's imports and exports have to pass through Kenya. In addition, substantial trade is carried on between the two countries. Nonetheless, Kenya has spoken in

forthright terms on a number of occasions about excesses under the regime of Gen. Idi Amin. As the Foreign Ministry stresses, Kenya recognizes states, not governments.

### Sensitive Issue

The most sensitive issue for Kenya at present is the Somali claim to a greater Somalia. Kenyan policy — its insistence upon the 1964 Cairo OAU resolution on boundaries, its refusal to entertain any Somali claims and its support for Ethiopia during the Ogaden war, despite the fact that the two governments are ideologically so far apart — has been entirely consistent on this issue.

This position has had repercussions far beyond East Africa. When in 1977 Britain's Foreign Secretary

David Owen visited Kenya and paid his respects to President Jomo Kenyatta, the Kenyan leader spent most of their meeting asking Dr. Owen just what the British position was on Somali claims. As Dr. Owen subsequently said in the British Parliament, Britain was not prepared to take any action in the Horn that would harm relations with Kenya.

Earlier this year when Dr. Waiyaki spoke out against Iran's close support for Somalia, the Shah ordered the embassy in Nairobi closed until he received an apology. The embassy remains closed.

And during the Ogaden war it may well have been moderating Kenyan influences that restrained Ethiopia from severing relations with Western powers entirely. —G.A.

## What to Do With All the Aid?

NAIROBI (IHT) — With an average GNP per head of some \$240, Kenya can hardly be described as a poor country. Indeed it is almost in the middle-range group of developing nations. Yet there are few countries that have received as much per-capita international aid. According to the United Nations Development Program (UNDP), existing aid commitments amount to \$110 for each Kenyan.

At the end of last year, commitments under aid programs amounted to \$459 million of grants and \$993 million of loans. Of the grants, \$110 million were from Britain, \$77 million from Sweden, \$50 million from Norway and \$40 million each from the Netherlands and West Germany. Of the loans \$485 million was from the World Bank, \$85 million from Britain, \$69 million from the International Monetary Fund, \$68 million from West Germany, \$60 million from the European Economic Community and \$56 million from France.

Last year alone Kenya received \$100 million in aid, of which \$26 million was in the form of grants. This year the government is banking on \$170 million, of which \$42 million would be in grants.

Nairobi has been chosen as the world headquarters for the United Nations Environment Program

(UNEP) and Habitat, as well as the site for two major international research centers and the regional offices for several other UN bodies. In 1976 both the United Nations Conference on Trade and Development (UNCTAD) and Unesco met in Nairobi and last year UNEP held its desertification conference here.

What is it that makes Kenya so popular with the donors? Countries like Britain, West Germany, the United States and Canada are anxious to support a moderate pro-Western country like Kenya at a time when it is being surrounded by hostile neighbors. To some donors the Kenyan market is large enough for the aid to have a certain commercial spin-off. All bilateral loans are tied anyway. There is a certain appreciation of the way in which Kenyans fit in with the thinking of UN bodies. Kenyan planners are quick to pick up development ideas and incorporate them in their own plans. Finally, Nairobi makes a very pleasant post for many UN bureaucrats.

### Impossible Task

But many people believe that Kenya cannot really absorb that much aid. That the aid is given is often more useful to the donor than to Kenya itself and that the man-

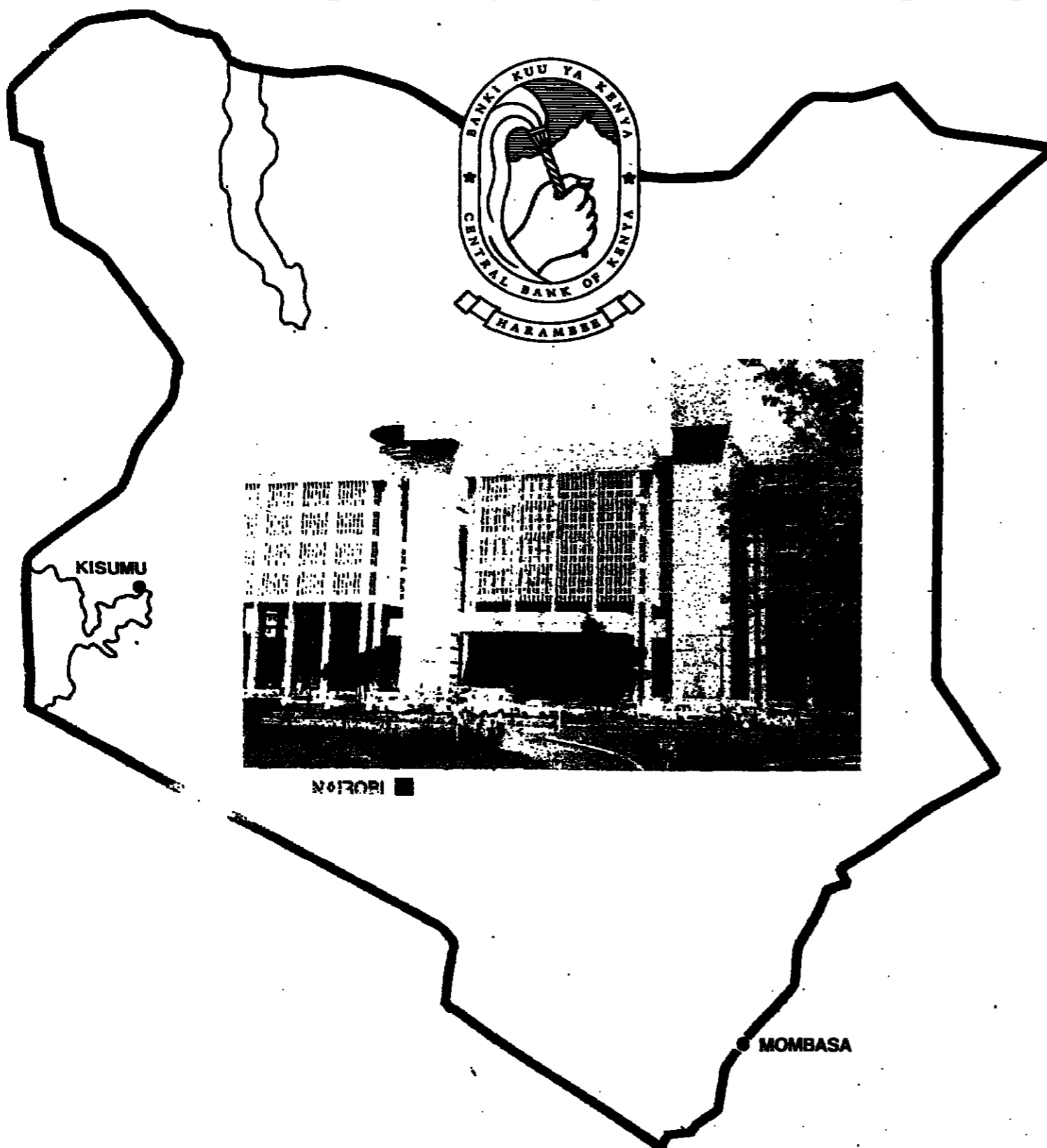
agement of such vast sums of money from so many sources is a virtually impossible task for the Kenyan government. Ideally the Ministry of Finance would like to integrate the 400 different projects that are currently being financed by various aid programs, but it looks as if it will be forced to divide up the country into different areas, giving individual donors responsibility for each area under the ultimate supervision of the ministry.

It is very much because of the confusion created by so many different programs that the UNDP is trying to help the government in establishing an integrated rural development plan based on donor money.

The bulk of existing aid commitments are going into agriculture, forestry and fishery, which alone take 30 percent of the \$1.4 billion of grants and loans. Transport and communications, water development and energy represent 16.5, 13.5 and 8.1 percent, education and industrial development 7.2 and 5.7 percent.

Among major projects are the building of two geothermal plants, the laying of some 40,500 kilometers of rural access roads and the giant Bura irrigation project on the Tana River.

## CENTRAL BANK OF KENYA THE FINANCIAL HUB OF THE REPUBLIC



The Central Bank is the principal financial institution in Kenya. Besides carrying out normal central banking functions it renders the following services to investors:

1. Administers Exchange Control in a humane and understanding spirit.
2. Considers, together with the Ministry of Finance, applications for protection under the Foreign Investment Protection Act.
3. Approves borrowing abroad by resident companies.
4. Ensures that proceeds from the sale of Kenya products are repatriated within a reasonable period of time.
5. Oversees the administration of the imports supervision scheme to ensure that the quality, quantity and price of goods received conform with specifications.

### Japan to

By Henry Scott  
TOKYO, Sept. 24 (AP) — Japan's planned policy to help Kenya's exports to China, the government next month will propose a drastic liberalization of its export controls on the Communist country.

The proposal is to be made at a meeting of the Committee for Export Controls on Oct. 2.

A spokesman for the committee said that Japan has been one of the most active members of the United Nations Committee for Export Controls since it was set up in 1950.

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